

FINANCIAL TIMES

World Business Newspaper <http://www.ft.com>

TUESDAY MAY 26 1998

Music and publishing
Merger pay-offs threatened
by artist fees and internet
Page 15

Czech finance
Why companies go for
international equity issues
Page 19

Human Genome Project
Invigorated by a new
spirit of competition
Technology, Page 10

Brazilian Privatisation
Assets worth \$80bn
could be sold
Survey, Separate section

WORLD NEWS

Crooks 'laundering' \$300m a day via the international financial system

At least \$300m in illegally earned money is laundered daily through the world's globalised financial system, as drug-runners and other criminals convert profits into usable funds, according to a report. Commissioned by the United Nations International Drug Control Programme, the report says the world financial system is processing a large part of an estimated \$200bn of drug money laundered annually. Page 16; Money launderers' dream, Page 7

Swiss insurers 'sought Nazi gold'
Switzerland's leading insurance companies tried to get paid in Nazi gold in the final days of the second world war, even though they were aware that much of the gold had been looted, according to a group of independent historians. Page 2

EU move on child labour
European Union trade ministers agreed to offer tariff cuts worth up to €970m (\$984m) a year to developing countries that sign up to international standards on child labour and environmental protection. Page 6

Europe agrees arms sale code
European Union foreign ministers agreed in principle to a code of conduct regulating arms exports to third countries. Page 3

German minister in M-waste row
Angela Merkel, Germany's environment minister, is at the centre of a political storm after disclosures that for more than a decade some nuclear waste shipments had given off excessive radiation. Page 2

Poland faces EU aid cuts
Poland's 1998 aid allocation under the European Union's Phase programme has been cut by €404m to €1.78bn (\$2.02bn) after criticism from the European Commission that the country has been slow in presenting suitable projects for funding. Page 2

Norwegian royal visit to Russia
Norway's King Harald V and Queen Sonja met Russian president Boris Yeltsin in the Kremlin at the start of a five-day state visit to Russia, the first by a Norwegian monarch since 1905.

Turkish court orders closure
State prosecutors have demanded the closure of Turkey's leading Islamic business group for allegedly breaking laws on societies and associations. Page 2

Saddam warned on US withdrawal
William Cohen, US defence secretary, warned Saddam Hussein, Iraq's president, against "taking comfort" from a partial withdrawal of US troops in the Gulf because a rapid deployment force could be reconstituted in 48 hours. Page 5

Arabist in talks with Saudi king
Yasser Arafat, president of the Palestinian Authority, made an unexpected visit to Saudi Arabia to hold talks with King Fahd amid attempts by the Palestinians to convene an Arab summit aimed at freezing relations with Israel. Page 7

S Africa currency crisis fear
The flood of foreign capital into South Africa dried up in the past month, raising fears of a currency crisis and casting a pall over the interest rate outlook. Page 7

HK Democrats sweep polls
Hong Kong's pro-democracy parties captured more than 80 per cent of the vote in the territory's first post-colonial elections, increasing pressure on the government for reforms. Page 4; Editorial comment, Page 15

China to spur home loans
China is seeking to reverse a slowdown in economic growth by channelling funds toward the housing market and lifting banking restrictions on mortgage lending. Page 4

BUSINESS NEWS

Split could delay Brussels' decision on Kirch-CLT-Ufa pay-TV venture

A pay-TV joint venture planned by Kirch, the German media group, and CLT-Ufa, the Luxembourg-based company partly owned by Bertelsmann of Germany, could face delay on approval by Brussels because of divisions within the European Commission. Page 16

Zeneca, the UK-based pharmaceuticals company, Kvaerner, the Anglo-Norwegian engineering group, and Eversheds, the law firm, are to garner support from other large companies for a test case to establish the first pan-European pension fund. Page 17

A management shake-up is expected over the next few weeks at the Caspian Pipeline Consortium, the \$2bn project to build the first oil export system from the Caspian region since the break-up of the Soviet Union. Page 6

Astra of Sweden filed lawsuits against US rivals GenPharm and Andrx Pharmaceuticals, both generic drug manufacturers, for infringing patents on Astra's anti-ulcer treatment Losec, the world's top-selling prescription. Page 17

Greece's Socialist government faced deepening labour union opposition to next month's planned sale of Ionian Bank through a tender on the Athens stock exchange. Page 3

Toshiba of Japan blamed an 89 per cent fall in annual profits on the Asian economic crisis and the competitive personal computer market. Consolidated net profits for activities from nuclear power stations to televisions fell from ¥57bn (\$515m) to just ¥7.3bn. Page 17

Vendex and De Boer Unigro (DBU), the Dutch retailers, saw their shares rise as they revealed a plan to create a supermarkets group ranking close behind Aldi, the sector leader. Page 20

South Africa's flood of incoming foreign capital has dried up in the past month, raising fears of a currency crisis and casting a pall over the interest rate outlook. Page 7

Rule changes for share dealing on the London Stock Exchange's controversial electronic order book system are expected to fall short of some of the more radical changes some participants have recommended. Page 8

The US Virgin Islands legislature has approved the purchase of a 50 per cent stake in Hess Oil Virgin Islands Corporation by Petroleos de Venezuela, which will pay \$825m over 10 years. Page 5

Japanese department store sales in April showed the first year-on-year increase for 13 months, but retailers said consumption remained depressed. Sales rose 8.3 per cent from a year earlier, to ¥716.5bn (\$6.3bn), but were 6.9 per cent lower than in April 1998. Page 4

Brazil's privatisation programme could face a shortage of financing as the government seeks to raise \$25bn in the next few months, senior bankers said. Page 17

Samsung Motors, newest and smallest of South Korea's four car-makers, said negotiations on a strategic alliance with Ford of the US had collapsed. Page 18

Singapore Telecom, the national telephone company, reported a 12 per cent rise in net profit to S\$1.88bn (US\$1.16bn) for the year to March 31 but said it expected slower growth this year. Page 18

Euro Prices
A comprehensive statistical guide to the new euro currency zone, covering foreign exchange, bond and equity markets. Page 23

Russia seeks IMF help on debt amid market turmoil

By Chryssia Freadland in Moscow

The Russian government is seeking help from the International Monetary Fund in a domestic debt restructuring programme, Sergei Kiriyenko, the prime minister, said yesterday. His announcement came after another bruising day on the Russian financial markets, during which interest rates on state bonds climbed above 50 per cent. Share prices fell by 5 per cent, bringing the total stock market decline this month to more than 30 per cent.

The financial turmoil, which coincided last week with a coal miners' protest and a shoot-out in southern Russia, together risked jeopardising Russia's political stability and national security, a Kremlin official said yesterday.

The government fears the costs of domestic borrowing could push the economy into a vicious circle, further weakening shaky public finances and intensifying fears of a rouble devaluation. Such concerns could force interest rates still higher and speed Russia's decline. To break out of the cycle, Mr Kiriyenko said the government would try to retire its high-yielding, rouble-denominated domestic loans with longer-term, hard-currency borrowing. He said Russia was seeking help from the IMF.

"There is one project which we are interested in looking at jointly [with the IMF]," Mr Kiriyenko said, speaking to a group of US fund managers. "This is the possibility of forming a special, consolidated credit, a hard-currency credit, for the buying back of Russia's internal debts."

Russia is believed to have broached the possibility of extra lending from the IMF to help it retire its expensive domestic debt, but has not named a specific amount. The IMF is expected to decide this week whether to release a scheduled \$670m tranche of its three-year loan to Russia.

However, Russia may need to set its fiscal house in order before it wins whole-hearted IMF support for the debt restructuring plan. "Russia needs to strongly implement fiscal measures - both on revenue and expenditure - as a precondition of moving forward with debt restructuring," Martin Gilman, resident representative of the IMF in Moscow said. "Unless they deal with the underlying fiscal imbalances, debt restructuring is a high-risk strategy."

Some economists fear that if the Russian government shifts too much of its borrowing to hard currency it risks making itself unduly vulnerable in the event of a rouble devaluation, raising the spectre of the type of financial crisis Mexico experienced in the mid-1990s.

In an effort to reassure both the IMF and nervous investors, Mr Kiriyenko said the government would launch an aggressive programme to revive its ailing public finances. "The first step will come today, when the prime minister said President Boris Yeltsin would sign a tough expenditure-cutting decree. Mr Kiriyenko said the government would also make a concerted effort to boost revenue collection, although he promised that no new taxes would be levied."

Japan may abolish withholding tax to attract investors

By Gillian Tett in Tokyo

The Japanese government is considering the abolition, from next April, of the withholding tax paid by non-residents on income from Japanese securities.

The proposal, backed by some senior officials in the Ministry of Finance and Bank of Japan, is part of a new campaign to boost the international role of the yen and meet a challenge from the euro, the new European single currency which will be launched at the beginning of next year.

Traders say the plan, if implemented, could significantly boost the ¥250,000bn market for Japanese government bonds (JGBs) by attracting a wave of new investors. Rumours of a change in the withholding tax - which would take effect at the beginning of the 1999-2000 fiscal year - yesterday helped push the long-term bond yield down to a new record low of 1.21 per cent.

The proposal will have to overcome opposition from the Ministry of Finance's tax bureau which has insisted that any abolition must take place as part of a wider reform of the tax system.

The issue of withholding tax has attracted particular interest this month because the Japanese government is seeking ways to make yen assets more attractive to foreign investors. Foreigners currently own less than 10 per cent of the outstanding JGBs. Most major industrialised countries abolished withholding

tax in the 1980s. In Japan it is imposed on income from many securities, including JGBs.

Non-residents trading JGBs have to pay 15 per cent tax on interest, while most non-financial companies and organisations have to pay 20 per cent. Domestic banks and other financial institutions are largely exempt.

Many non-resident Japanese investors avoid the tax by temporarily registering their bonds through Japanese financial institutions, using so-called "street names". As a result, only ¥7bn worth of withholding tax is actually collected each year.

However, foreign bankers complain that this practice is clumsy, creates credit risk and has an uncertain legal status. William Campbell, analyst at JP Morgan, said: "More than half the investors we speak to in Europe either cannot or will not buy JGBs because of the withholding tax and what they consider the unacceptable risk of holding JGBs in street names."

The ministry's tax bureau is strongly opposed to simple abolition of withholding tax because Japan, unlike the US, does not have a full system of investor identification. "If we just abolish withholding tax without creating a proper identification system we will end up like Luxembourg - there will be lots of evasion," said one tax official.

Capital markets, Page 24
Currencies, Page 25

Suharto backlash hits foreign groups

By Gwen Robinson in Jakarta, Andrew Jack in Paris and Robert Wright in London

Thames Water of the UK and Suez Lyonnaise des Eaux of France yesterday appeared to have become the first foreign casualties of the backlash against the business interests of friends and family of former Indonesian president Suharto.

The Jakarta city government said it had cancelled water management contracts awarded to the companies, the first sign of a reassessment of contracts awarded by associates of Mr Suharto, who resigned last week.

Thames Water said that although it had ceased to be involved in the daily management of east Jakarta's water system, a final decision on the contract had not been made. "I don't think either side in the longer term will want to throw the baby out with the bath water," the company said, adding that it had "met the requirements of our contract".

Suez Lyonnaise des Eaux confirmed that PAM Jaya, the state-owned water company, had taken over operational control of its water plants in the west of the city, but said its contract had not been changed.

In a statement from its Paris headquarters, the group said PAM Jaya had "temporarily modified the organisation" of its water plants "by directly

intervening in the management". However, it called suggestions that there had been any changes to its contract "incorrect and detrimental".

Thames Water and Suez Lyonnaise des Eaux signed joint venture contracts last June, which became operational in February. Suez teamed up with GDS, a subsidiary of the Salim Group owned by Sudono Salim, and Thames Water with Kati, a company owned by Mr Suharto's eldest son, Sigit Harjojudanto.

Mr Salim is one of Indonesia's richest men and a close friend of Mr Suharto. Mr Harjojudanto has a range of business interests. Rama Boedi, director of PAM Jaya, said the contracts had been awarded to the Indonesian-led consortium without open bids, under pressure from top government circles. "From the outset, our 3,000 employees opposed the deal," he said. But Suez said its contract was signed "in total respect of business ethics".

Separately, Indonesia's energy minister said he would review contracts between Pertamina, the state-owned oil company, and trading and shipping companies owned by the Suharto family interests. Critics allege the contracts were awarded as a result of nepotism.

Indonesian vote, Page 4
Suharto's legacy, Page 14
Law, Page 16
Self-offs to go ahead, Page 17



UK premier Tony Blair appeared to Britons to give Emperor Akihito of Japan - pictured at Expo 98 in Portugal yesterday - a warm welcome during his official visit to London, amid fears that trade with Tokyo could be damaged by controversy surrounding former prisoners of war. Page 6. Picture: Reuters

VW sets sights on two more luxury carmakers

By Halg Simonian and Graham Rowley in Wolfsburg

Volkswagen, Europe's biggest carmaker, may buy at least two other luxury car brands as well as Rolls-Royce Motor Cars, the upmarket British manufacturer it hopes to acquire next week.

Ferdinand Piëch, VW's chairman, said he was considering two other luxury acquisitions, apart from Rolls-Royce and Bentley, owned by Vickers, the UK engineering group.

Mr Piëch said in an interview with the Financial Times that VW's chances of winning Rolls-Royce were still only "50/50". Vickers' shareholders will vote on VW's offer at a special meeting on June 5.

Mr Piëch said VW planned to spend about DM1bn (\$500m) to quintuple Rolls-Royce's output to 10,000 cars a year in the next five years. That would involve reviving plans for a "medium-sized Bentley" range and pushing ahead with "Project Bali" to replace its ageing two-door cars. He said VW "had further plans", including a new Rolls-Royce model. The new car would be "very close" but distinct from Rolls's existing range, modernised this year with new four-door models.

VW would protect Rolls-Royce's British identity by running it as a separate subsidiary with its own board. Unlike BMW, VW's rival, which has made a lower offer for Rolls-Royce, VW would ensure that all engines were made in England.

Mr Piëch also planned a bigger role for Cosworth, Vickers' specialist engine subsidiary, which VW also wants to buy. Apart from manufacturing Rolls-Royce's engines, Cosworth would be expanded to produce power plants and do foundry work for VW's Audi executive cars subsidiary, which is suffering from bottlenecks.

Mr Piëch said spending to expand Rolls-Royce represented only 2 per cent of the group's DM44bn investment programme for the next five years.

VW planned to launch one new car a month until the end of next year as the benefits of its "platform strategy" to simplify product development bore fruit.

CONTENTS

World News 2-7 European News 2,3
Features 10,11,22 Comment & Analysis 14,15
Companies & Finance 17-21, 24 World Stock Markets 29-32
Full contents and Loc back page

© THE FINANCIAL TIMES LIMITED 1998 No.33,608
London • Leeds • Paris • Frankfurt • Stockholm • Milan • Madrid • New York
Chicago • Los Angeles • Tokyo • Hong Kong



Index	101.20	101.20	101.20	101.20	101.20
US\$	101.20	101.20	101.20	101.20	101.20
£	101.20	101.20	101.20	101.20	101.20
¥	101.20	101.20	101.20	101.20	101.20
€	101.20	101.20	101.20	101.20	101.20
...

Total Wealth Management

from

A to Z

...EFG

Total Wealth Management from EFG Private Bank is much more than a traditional banking service, it's a total banking solution. It offers every one of our clients the close, personal attention of an international team of people who are expert in every step of private wealth creation and management, from A-Z.

Total Wealth Management from EFG.

EFG Private Bank

GENEVA ZURICH LONDON PARIS MILAN STOCKHOLM BERLIN
DUBLIN DUBLIN DUBLIN DUBLIN DUBLIN DUBLIN

EFG PRIVATE BANK LIMITED IS REGULATED BY THE FCA

WORLD NEWS

EUROPE

Swiss insurers tarnished by Nazi gold

By William Hall in Zurich

Switzerland's leading insurance companies desperately tried to get paid in Nazi gold in the final days of the second world war, even though they were aware that much of the gold had been looted.

They also sought special treatment after the war by failing to disclose fully their secret negotiations with the Germans to the Allied negotiators.

The disclosure, by a group of independent historians headed by Professor Jean-

François Bergier, is likely to put the spotlight on the insurance companies, which until now have escaped the criticism levelled at the war record of the big three Swiss banks. The banks are trying to reach a settlement of multi-billion dollar class actions from US Holocaust survivors. The latest revelations will increase pressure on the insurers to reach a similar financial settlement.

Until now it has been assumed that the Swiss banks had the most to gain from Germany's continuing involvement in the second

world war. However, the banks stopped dealing in gold after October 1941, and the interim report of the Bergier commission shows that the Swiss insurers had even more at stake.

By the end of the war, 16 Swiss direct insurance companies, or half of the total, were operating in Germany. They had invested Sfr538m (\$642m) by the end of 1944.

They earned two-thirds of their foreign premiums in Germany and 27 per cent of their total premium income. Swiss Re, then the world's biggest reinsurer, earned

more than a quarter of its profits from Germany from 1939 to 1943.

Although the Swiss insurance industry was informed about the controversy surrounding deliveries of looted German gold, the report notes that it was prepared to accept payments financed by transfers of German gold to the SNB.

In April 1945, only weeks before the end of the war, Hans Koenig, co-president of Rentenanstalt and the chief negotiator for the Swiss insurance industry, was still entertaining Emil Puhl,

vice-president of the Reichsbank, to dinner in Zurich.

The report says Koenig's main line of thought in the negotiations was guaranteeing the long-term prosperity of the Swiss insurance industry in the post-war era.

The report is also highly critical of the role of the Swiss National Bank, which handled four-fifths of the gold transfers of the German Reichsbank. "As the number of gold bars coming in from Berlin grew, so did knowledge concerning the origin of the metal from Germany's plundering of the occupied

territories. From today's vantage point it is shocking to see how the Swiss National Bank responded to the problem in summer 1942," says the report.

However, the Swiss National Bank said yesterday that the report contained "no elements that would call for a fundamentally modified assessment" of its policy during the war. It had stated several times that its wartime policy had "its dark sides" and profoundly regretted accepting gold deliveries from victims of concentration camps.

Ex-minister linked to kidnap 'mercenaries'

By David White in Madrid

A former police officer yesterday filed the opening salvo in Spain's "dirty war" trial by accusing José Barrionuevo, the former Social-

ist interior minister, and two of his senior colleagues of knowingly letting a kidnap go ahead in 1983.

The ex-superintendent, José Amedo, was the first of 12 defendants to take the stand at the start of a tense and long-awaited trial in the supreme court.

Prosecutors are seeking prison terms totalling 178 years, including 23 years for Mr Barrionuevo and his former number two, Rafael Vera.

It was Mr Amedo's evidence to an examining judge four years ago that launched the current case to determine who masterminded a covert campaign, carried out under the name Anti-Terrorist Liberation Groups (Gal), against suspected Basque terrorists based in southern France.

Mr Barrionuevo, in an interview at the weekend, described the court case as "a dirty settling of scores, of a political character, dressed up as a judicial procedure".

The case involves the first crime claimed by Gal, in which a furniture dealer was kidnapped by mistake. Gal is blamed for about 25 deaths over the four years after the kidnap.

Mr Amedo's accusations

centred on another of the defendants, Julián Sancristóbal, who was the Spanish government's senior representative in Bilbao at the time and later director of state security.

He said Mr Sancristóbal received funds for the operation and acted as liaison with the minister and Mr Vera. He alleged that FFy70,000 (\$11,800) was paid to mercenaries who carried out the kidnap.

The panel of 11 judges is due to hear the other defendants - with Mr Barrionuevo the last in line - before taking evidence from 40 witnesses, including the former prime minister, Felipe González, who raised a storm last week by claiming it was a political trial.

The daily El Mundo, which played a leading role in Gal disclosures, published a fresh allegation yesterday, saying that Mr Sancristóbal was likely to testify that he showed his superiors a police file and photograph of the intended victim before the kidnap.

In an opinion poll in the Barcelona daily La Vanguardia, 31 per cent of respondents said they approved of the "dirty war", while 44 per cent disapproved.

Bonn minister in row over N-waste radiation

By Peter Norman in Bonn

Angela Merkel, Germany's environment minister, is at the centre of a political storm after disclosures that for more than a decade some nuclear waste shipments had given off excessive radiation.

Although the minister yesterday put forward a 10-point plan to ensure that the government would not be ignorant of such incidents in future, the environmental Green party called for her resignation.

The opposition Social Democratic party has challenged Helmut Kohl, the chancellor, to take responsibility for clearing up the issue and either "back or sack" Mrs Merkel when parliament holds an emergency debate on the disclosures tomorrow.

Mrs Merkel, who last week banned waste shipments from nuclear power plants inside Germany and to the processing plants at La Hague in France and Sellafield in Britain, yesterday ordered Germany's organisation for plant and reactor safety (GRS) to produce an urgent report explaining how excess radiation had appeared on the outside of special "cask" waste con-



Merkel resignation call

tainers arriving at La Hague. The minister also ordered better reporting of cases of contamination by the nuclear power operators; urged the federal states to tighten controls inside power stations; and ordered utilities to reorganise the transport of waste and improve technical measures to prevent excessive radiation in the future.

Mrs Merkel, who will discuss the problem with the French authorities today, promised there would be no resumption of waste transports until the cause of contamination had been found, and a functioning flow of information established with

the French and British processors and the German nuclear industry.

Mrs Merkel's ministry first learned on April 24 of a cask arriving at La Hague with gamma radiation five times the official limit of 4 becquerels per sq cm. It has since been estimated that 20 per cent of such shipments last year were contaminated.

The affair has come at a politically unfortunate moment for Mr Kohl who was hoping to capitalise on a slight recovery in the weak opinion poll ratings of his Christian Democratic Union following its successful party congress last week.

The disclosure that nuclear companies knew of the problem since the mid-1980s has cast a further cloud over an industry which is widely mistrusted following incidents of secrecy concerning nuclear safety over more than 30 years.

In a weekend statement, the nuclear power producers admitted their specialists knew of the problem for years, having been tipped off by the French authorities. While "constantly working on technical improvements", they failed to tell the German authorities.

NEWS DIGEST

EU AID PROGRAMME

Poland faces cuts after being slow off the mark

Poland's 1998 aid allocation under the European Union's Phare programme has been cut by Ecu34m to Ecu178m (\$200m) after criticism from the European Commission that the country has been slow in presenting suitable projects for funding.

Hans van den Broek, the EU's foreign affairs commissioner, said the cuts have been made because Poland has been too late in presenting projects for implementation. Moreover, some of Poland's proposed spending plans failed to comply with the "Accession Partnership", an EU programme designed to prepare the country for EU membership. The cut in aid is designed to underline concern in Brussels that the government, in its view, is paying too little attention to pursuing the reforms needed if Poland is to join the EU in the first half of the next decade. Christopher Bobinski, Warsaw

NORWAY'S PETROLEUM FUND

Value rises by 8.4%

The market value of Norway's government petroleum fund - the state reserve for surplus oil revenues - rose 8.4 per cent to Nkr51.5bn (\$7.7bn) last year, according to the finance ministry.

Since the start of 1997, when the assets in the fund were valued at Nkr47.5bn, it has marginally outperformed a benchmark return based on the Salomon Brothers world government bond index. Returns on the fund reached 11.3 per cent for the year, against a benchmark figure of 11.21 per cent. Tim Burt, Stockholm

ISLAMIC BUSINESS

Bid to close Turkish group

State prosecutors have demanded the closure of Turkey's leading Islamic business group, a security court official said yesterday.

The court's civilian and military prosecutors launched charges against the Association of Independent Industrialists and Businessmen (Musad) for breaking laws on societies and associations, the official said.

Anadolu news agency said the court had also charged Musad's chairman, Erci Yasar, with "provoking hatred amongst the people" in a speech he made last year criticising restrictions on religious education. Reuters, Ankara

ITALIAN CRIME

'Mafia boss' recaptured

The Italian government yesterday regained the initiative in the recent row over failings in its justice system after Pasquale Cutrera, a leading Mafia boss, was recaptured in Spain. Eighteen days after he slipped from the clutches of the Italian authorities, Cutrera was captured by Spanish police in Fuenfria on the Costa del Sol. James Biltz, Rome



WHAT BROUGHT THEM TOGETHER? BLACK GOLD. WHAT KEEPS THEM TOGETHER? THE BANK OF NEW YORK.

In the winter of 1976, by an historic vote, the citizens of Alaska created something which no other state in the nation had created before: a savings trust, fueled from the sale of oil, to be used for the benefit of every Alaskan, now and in the future. Called the Alaska Permanent Fund, it has become a \$23 billion arctic treasure. • What bank sees to it that Alaskans are kept up-to-date on fund finances and investment performance? The Bank of New York. • Through daily reports sent electronically from the Bank, and the Permanent Fund's use of Internet technology, Alaskans scattered across 550,000 square miles can see what their fund is worth and where their money is invested. • Fund executives are able to track with pinpoint accuracy the performance of their investment managers, making sure citizens get the best performance possible. • Today, thousands of clients are using The Bank of New York to create, maintain and enhance relationships with investors in over 60 countries. In Juneau, Executive Director of the Alaska Permanent Fund Corporation Byron I. Mallott and investors Sarah Williams, Kimberly Kuzuguk and David Hobbs are just one example.

SOLUTIONS FOR INVESTORS AND ISSUERS WORLDWIDE

ISSUER: Byron I. Mallott.

INVESTORS: Sarah Williams, Kimberly Kuzuguk, David Hobbs.

GLOBAL CUSTODY • ADRS • SECURITIES LENDING • TRANSFER AGENCY SERVICES • GLOBAL CLEARANCE •

البنك الدولي

HUNGARIAN ELECTION SOCIALISTS SPURNED DESPITE FOREIGN PRAISE FOR ECONOMIC RECORD

Markets fall as voters take revenge for austerity years

By Kevin Done and Kester Edey in Budapest

Hungarian voters are a volatile and unforgiving lot. The Socialists and their prime minister, Gyula Horn, who enjoyed a landslide victory four years ago, went to bed in the small hours yesterday after Sunday's general election tasting bitter defeat, despite a record in office that has won high praise abroad.

Their thanks for having pulled Hungary back from the brink of a Mexico-style debt crisis in 1995, for restoring growth and establishing it as the model for reform country in central and east Europe, was to lose more than a third of their seats.

Voters have not enjoyed the tough austerity measures that have accompanied the economic turnaround. The macroeconomic progress has been too short-lived and the gains too unevenly spread to wipe out the memory of the pain.

On Sunday they voted for change and for a new generation in the shape of the centre-right Fidesz-Hungarian Civic party, founded 10 years ago by a group of anti-communist student activists and the only one of the leading

parties yet to be tested – and tarnished – by the rigours of office.

"Voters have shown that the country needs a new government for a new century," Viktor Orban, the Fidesz leader, declared jubilantly on Sunday night, unable to suppress a boyish grin at his triumph. The former law student will celebrate his 35th birthday next Sunday as the standard-bearer for a new generation.

But the celebrations will not last long. Already yesterday, as Mr Orban was looked in negotiations with his potential coalition partners, the financial markets were passing their own sceptical verdict. The Budapest stock market, which fell 8 per cent in the past two weeks as the prospect of a Fidesz victory loomed, dropped sharply again yesterday, losing 8.7 per cent of its value in a day.

Hopes expressed last week by some financial analysts, and privately by western diplomats, that Fidesz might enter a grand coalition with the Socialists in the interests of political stability appeared to be dashed on Sunday night by Mr Orban.

Such a move was "inconceivable", he said, the elec-

torate had voted for change. While Fidesz made crushing gains on Sunday, overtaking the Socialists to become the biggest single party and increasing its seats to 148 from only 20 four years ago, it failed to gain an overall majority in the 386-seat legislature. It is having to look to the unpredictable right-wing Smallholders' party to gain a majority.

"The market fears a Fidesz-Smallholders coalition, that it will be unstable and unlikely to last for 4 years," said Tamas Szalai, an analyst at Comrade Securities, the leading domestic broker. "And it fears that looser fiscal policies will lead to higher budget and current account deficits."

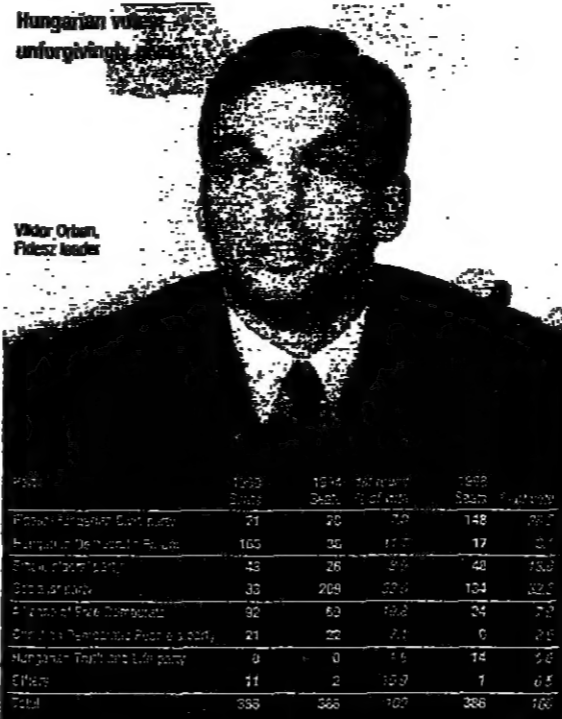
Mr Orban must now decide which of his campaign promises must be kept and which can be quietly laid aside. Fidesz has campaigned on a platform of law and order, anti-corruption and measures to support the family. He has also called for moves to accelerate economic growth to 7 per cent a year in order to double gross domestic product in a decade through a programme of cuts in taxes and social welfare contributions.

Much of the credit for the economic turnaround of the past three years has been given to the central bank and its governor Gyorgy Suranyi, but the Smallholders in particular have also been calling for controversial changes in monetary policy. Western diplomats in Budapest suggest that Fidesz would have to moderate many of its policies once it is in government, and say that it will be boxed in by the need both to attract foreign capital and to meet the conditions for entry into the European Union.

But financial observers say that this view disregards the formidable learning curve that Fidesz leaders now face. "We are staggered that anyone should underestimate the ability of politicians to screw things up," says Dorothea Kleinwort Benson, the investment bank. The planned economic and monetary policy shift "would be a disaster: a loose fiscal policy would fuel an economy which is already threatening to overheat and combined with a stronger forint, would lead to a potentially destabilising widening in the current account deficit."

Beyond the economy there are also concerns that a Fidesz-Smallholders coalition and the shift to the right in Hungarian politics could lead to much louder nationalist rhetoric out of Budapest, undermining the progress made by the Horn government in improving relations with neighbouring countries, most notably Romania and Slovakia, where there are large ethnic Hungarian minorities.

Such fears have been awakened by the success of the far-right extremist MIEP



Viktor Orban, Fidesz leader

party, led by the ultra-nationalist Istvan Csurka, in entering parliament for the first time. Both Fidesz and the Smallholders have ruled out any co-operation with MIEP, but Mr Orban hardly stilled fears about a rising nationalist mood when he observed on Sunday night that the boundaries of the Hungarian state and those of the Hungarian nation did not coincide.

Such fears have been awakened by the success of the far-right extremist MIEP

party, led by the ultra-nationalist Istvan Csurka, in entering parliament for the first time. Both Fidesz and the Smallholders have ruled out any co-operation with MIEP, but Mr Orban hardly stilled fears about a rising nationalist mood when he observed on Sunday night that the boundaries of the Hungarian state and those of the Hungarian nation did not coincide.

Such fears have been awakened by the success of the far-right extremist MIEP

EU agrees on arms sale code

By Lionel Barber in Brussels and Andrew Parker in London

European Union foreign ministers agreed in principle yesterday to a code of conduct regulating arms exports to third countries.

Britain, which holds the EU's rotating presidency, hailed the EU-wide guidelines as a breakthrough. But diplomats said Robin Cook, foreign secretary, had watered them down in order to win the support of France. The code of practice agreed in Brussels rejects Nordieled calls for a permanent blacklist of countries with poor human rights records. It also sidesteps demands for full transparency on granting export licences.

But Mr Cook, under pressure at home because of the "arms for Africa" affair and disclosures that the UK government has approved more than 50 military export licences to Indonesia, said: "The agreement is a real achievement. It is a substantial step forward towards responsible and effective regulation of the European arms trade." He rejected suggestions the code would have prevented the "arms to Africa" affair. Referring to Sandline Inter-

national, the UK company which claims it had government approval for export of arms to Sierra Leone despite a UN embargo, Mr Cook told the BBC: "They never applied for an export licence. There was never any ministerial decision on an export licence. Had they applied, they would have been refused."

Governments will be expected to withhold export licences to countries which fail to respect minimum standards of human rights and democracy. The key criterion will be whether the sale of arms could lead to internal repression or external aggression. The code would require EU countries to circulate through diplomatic channels details of export licences which have been refused, giving full reasons. Each country will circulate an annual report on its defence exports and application of the code.

Any EU member-state which decided to grant a licence to a suspect country would have to consult the partner which had issued the original refusal.

EU foreign ministers approved a mandate for fast-track negotiations on a free trade accord with Mexico.

PROFILE VIKTOR ORBAN

New generation picks a centre-right leader

By Kevin Done and Kester Edey

Viktor Orban has made it to the top of Hungarian politics in only 10 years. His triumph at the polls on Sunday signals one of the most dramatic generational changes in the post-communist countries of central and eastern Europe.

Mr Orban, 34, a former student activist and president of the centre-right Fidesz-Hungarian Civic party, is now poised to lead the country, ousting Gyula Horn, 65,

the Socialist prime minister for the past four years.

Mr Orban, who graduated with a law degree from Hungary's respected Eotvos Lorand university in 1987, became a founder one year later of Fidesz, then called the Federation of Young Democrats, a radical, anti-communist student movement.

He shot to fame in 1989 with an outspoken call for the removal of Soviet troops from Hungarian soil, a demand he made at the rebu-

rial of Imre Nagy, the prime minister executed for his role in the 1956 Hungarian uprising against the Communists.

He won a scholarship from George Soros, the Hungarian-born financier, to study English liberal politics at Oxford in 1988.

But his studies were interrupted by Hungary's first free elections in April 1990, when he was elected to parliament.

Fidesz made only halting progress at Hungary's first

two free elections in 1990 and 1994. But since taking on the leadership in 1993, Mr Orban has transformed the movement into a mainstream party that appeals across the generations and attracts support across the centre-right of Hungarian politics.

The turn away from the movement's roots and Mr Orban's often autocratic style of leadership within the party have alienated some of his early, more liberal supporters.

But his strategy of seeking to consolidate the increasingly fragmented centre-right opposition, even at the price of jettisoning some liberal principles along the way, has won handsome dividends at the ballot box.

A country boy with a tough upbringing – his home first got hot running water when he was 14 years old – Mr Orban has retained a mistrust for Budapest intellectual circles. This has helped him to distance his

party from his former liberal allies, the Alliance of Free Democrats.

While they have worked for the past four years in coalition with the Socialists, he has taken on more of the mantle of the nationalist right.

He was born in Szekesfeher in central Hungary, 40 miles south-west of Budapest, growing up in a nearby village. His father was an agricultural engineer, and his mother a speech therapist.

Greek bank battle

Greece's Socialist government yesterday faced deepening opposition to next month's planned sale of Ionian Bank through a tender on the Athens stock exchange. Kerin Hope reports from Athens.

Transport and shipyard workers stopped work for four hours to support a two-week strike by Ionian employees. Several hundred bank employees demonstrated outside an Athens court which was hearing a request by Ionian's management for the strike to be declared illegal.

The government says the sale terms should include job guarantees for more than 3,500 workers for three

years. The union wants the bank merged with its parent, Commercial Bank, in a second big state banking group.

Harris Stamatopoulos, Ionian's governor, said in an interview the sale of a 51 per cent stake in Ionian would "rescue the bank, because the buyer would be required to inject fresh capital, and would also ensure the survival of Commercial Bank".

Commercial would be able to strengthen its balance sheet, before being offered for sale "in a year or so, after it has made progress with restructuring". The two banks have a combined market share of about 25 per cent but are only marginally profitable.

THE BANK OF NEW YORK

CORPORATE TRUST • CREDIT SERVICES • CURRENCY MANAGEMENT • CASH MANAGEMENT • EXECUTION SERVICES

ASIA-PACIFIC

PRISONERS TO BE RELEASED ELECTIONS UNLIKELY BEFORE EARLY NEXT YEAR

Indonesians to vote 'soon'

By Sander Thomas in Jakarta

Indonesia's new government announced yesterday it would hold general elections and free political prisoners, as part of an attempt to gain acceptance from wary citizens and foreign governments.

The state secretary, Akbar Tanjung, *de facto* spokesman of the first cabinet of President B.J. Habibie that was sworn in on Saturday, failed to set a timetable but promised "elections as soon as possible after we prepare the laws", referring to five principal laws that restrict parliamentary elections to three parties and favour the dominant Golkar party.

This leaves elections unlikely until early next year but the cabinet promise eases concern that the

unpopular new president intends to serve out a full five-year term. Opposition leaders, diplomats and even his own cabinet ministers had urged him to allow early elections.

The justice minister, Muladi, said the new government would release Sri Bintang Pamungkas and Mukhtar Pakpahan, two of Indonesia's best known political prisoners. Mr Sri was convicted for defaming former President Suharto; Mr Pakpahan was jailed on charges of inciting riots in 1996 but his claims of innocence found tacit support from numerous governments.

Human rights activists count some 300 political prisoners in Indonesia. The promises to hold elections and free political prisoners go some way towards

meeting demands of opposition groups and student protesters, many of whom have accepted Mr Habibie only as a transitional leader. Student protests have resumed, following a lull after last week's resignation of Mr Suharto, and many demand Mr Habibie's dismissal because of his close ties to Mr Suharto and his regime.

Mr Habibie is trying to set up an advisory council on reform and has invited opposition leaders to join it. But several have declined for fear of being associated with a regime they see as unpopular and temporary.

Mr Muladi said he was reviewing the convictions of East Timorese pro-independence activists but added that communists would not be freed. He declined to clarify whether he was referring

only those jailed shortly after the failed communist coup of 1965, or also to eight members of the People's Democratic party, who are serving terms of up to 13 years for organising labour protests in recent years.

The powerful armed forces would object to release of any communists and regards the PRD as a communist movement, but the articles used to convict PRD members are relatively mild.

"These are half-measures," one western diplomat said. "Those 30-year-olds of the PRD could easily be freed. Habibie has to watch out that he does not repeat the mistake of Suharto, giving nominal promises just to keep the opposition at bay. He only has the goodwill of the opposition for a little while."



Mukhtar Pakpahan (left), a trade union leader, and Sri Bintang Pamungkas, a university teacher, greet supporters from Cipinang prison yesterday before their release. AP

China to spur home loans

By James Kyng in Beijing

China is seeking to reverse a swift slowdown in economic growth by channelling funds toward the housing market and lifting banking restrictions on mortgage lending.

The expected boost to house sales will, it is hoped, reinvigorate consumer demand and reverse an accelerating deflationary trend which is depressing corporate profits and investment.

Mao Yingliang, president of the Shanghai branch of the People's Bank of China (PBOC), announced that all banks in China's biggest city may now start to extend mortgage loans through the Public Fund Reserve, which collects contributions from the government, to prospective house buyers and their employers.

Previously, only the Shanghai branch of the Construction Bank, one of China's "big four" state banks, was allowed to supply mortgages through the Public Fund Reserve. Mr Mao also told local banks to earmark about 15 per cent of their new lending for mortgages this year, and a larger proportion next year.

The moves are part of a nationwide drive to stimulate housing demand before July 1, from which date the government plans gradually to abolish subsidised housing. Banks have promised to make available more than RMB100bn (\$12bn) in mortgages, up by more than RMB72bn from last year.

Government economists believe that if all these loans are taken up, the resultant

housing investment this year could contribute 1.8 percentage points to gross domestic product growth.

Last year China's GDP grew 8.8 per cent but slipped in the first quarter of this year to 7.2 per cent.

Some of the growth impetus would come from increased construction and some would derive from sales of household appliances to house-proud new owners, economists said. But there are complications.

The prevailing climate of deflation and falling real estate values may convince some would-be home owners to wait for lower prices before buying, economists said.

In some areas of China, such as the northern provinces of Liaoning, Jilin, Heilongjiang, and Inner Mongolia, workers receiving subsidised housing from thousands of insolvent state-run enterprises may be reluctant to spend their life savings at a time when their jobs are no longer assured.

Mitigating this reluctance, though, are generous mortgage terms under which people may borrow 70 per cent of the cost of their house at below market interest rates for a maximum of 20 years. State-subsidised housing is to be sold to occupants at a steep discount to market prices, officials said. In addition, occupants will be pushed toward purchases by the likelihood that the peppercorn rents of the past will gradually start to increase.

Management Investing in China, Page 11

POST-COLONIAL ELECTIONS ADMINISTRATION MAY FACE TOUGHER TIME IN LEGCO

Pro-democracy parties sweep popular vote in Hong Kong

By John Hidding and Louise Lucas in Hong Kong

Hong Kong's pro-democracy parties dominated the popular vote in the territory's first post-colonial elections, increasing pressure on the government to accelerate democratic reforms.

Results announced yesterday for Sunday's legislative elections, the first since Hong Kong returned to China last July, showed pro-democracy parties had captured 14 of the 20 directly-elected seats, with more than 60 per cent of the vote. The 40 other seats, which were elected through committees and professional associations, were dominated by pro-business and pro-Beijing groups. But the failure of the pro-business Liberal party to win a single seat in direct elections, signalled a lack of popular support.

The Democratic party, a vocal critic of the Hong Kong government and of Beijing, won 13 seats and is the biggest party in the legislature. Martin Lee, the party chief, swept into the chamber along with the other pro-democracy leaders forced from the assembly at the handover.

Because of the structure of the voting system, pro-democracy forces will remain a minority in the legislature. But pro-democracy leaders said their showing supported calls for a rapid move to a directly-elected legislature.

Michael DeGolyer, who oversees the Hong Kong Transition Survey on behalf

of Baptist University, said the distorted legislature - where the majority lack the public mandate of the minority - could lead to ructions further down the line.

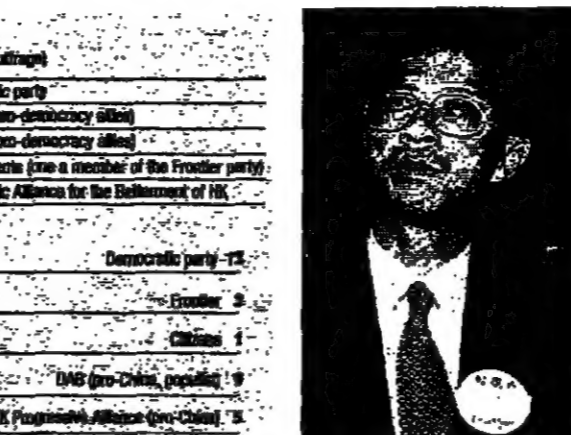
"When you look at Indonesia, where we had Suharto returned by 1,000 picked voters, sometimes this sort of elitist veto does not hold, especially in times of trouble. We just need to hope that the currency peg holds, the economy holds."

Emily Lau, leader of the Frontier, a pro-democracy group which won three seats, said: "I think people have spoken very loudly and clearly. They support democracy and the pro-democracy candidates have scored a resounding victory."

Mr Lee called for direct elections for all 60 legislative seats in elections scheduled for 2000.

The Basic Law, Hong Kong's post-colonial constitution, outlines a gradual increase in the number of seats to be contested through direct election. It provides for a decision to be made in 2007 on whether to move to a directly-elected legislature.

Tung Chee-hwa, the chief executive, welcomed the 63 per cent turnout, far higher than the 35 per cent recorded in 1985. "This demonstrates strong public support for the first elections and the people's confidence in our country, two systems," he said, referring to the formula which underpinned Hong Kong's return to China. Beijing also applauded the high turnout, but was silent on the support shown for pro-democracy forces.



Hong Kong election results. Geographic study by political parties. Democratic party 13, Frontier 3, Citizens (pro-democracy allies) 1, Others (pro-democracy allies) 2, Independent (pro-democracy allies) 2, Democratic Alliance for the Betterment of HK 5, Others (pro-business) 9, Non-affiliated 20.

Tung Chee-hwa, leader of the pro-Beijing Democratic Alliance, at the court yesterday. He narrowly defeated a Democratic party candidate.

Mr Tung played down prospects of an acceleration in political reforms, arguing Hong Kong's progress towards a fully-elected legislature should continue at the pace stated in the Basic Law.

While commentators said the strong turnout confirmed claims of political apathy, they said a number of issues would have to be tackled before a legislature could be directly elected. These include the absence of a ruling party and the relationship between the executive and the legislature.

In spite of a voting system which will strengthen the hand of the government, and the presence of allies in the 40 indirectly-elected seats, political analysts predicted the administration would face a tougher time passing its legislative agenda.

NEWS DIGEST

CONSUMER SPENDING

Japanese department stores' sales increase

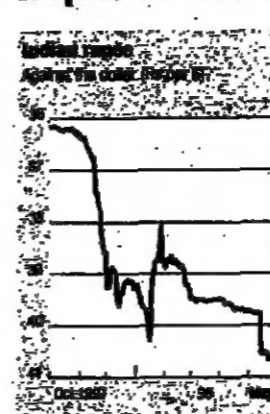
April sales at Japanese department stores showed the first year-on-year increase for 13 months, but were still much lower than two years ago and retailers said consumption remained depressed. Sales rose 8.3 per cent in April from a year earlier, to ¥716.5bn (\$5.3bn), but were 6.9 per cent lower than in April 1996. The Japan Department Stores Association said the apparent improvement was due to last year's sharp decline in consumer spending immediately following the increase in the consumption tax from 3 to 5 per cent in April 1997. Department store sales fell dramatically that month, and sales figures have shown year-on-year declines every month since then.

The association added that demand was still low, particularly in corporate sales, although spending on some personal items such as seasonal clothing had picked up.

Other figures yesterday showed a smaller year-on-year increase in supermarket sales, which were not hit as badly as department store sales by the tax increase. Supermarket sales in April were up 1.9 per cent from a year earlier, with a 2.3 per cent increase in food sales. Bethan Hutton, Tokyo

INDIAN CURRENCY

Rupee at low against dollar



The Indian rupee fell to an all-time low against the dollar yesterday following a decision by ratings agency Standard and Poor's to change the outlook on India's credit rating from stable to negative in the aftermath of the country's nuclear tests and the imposition of US-led sanctions. Dealers said the currency touched 41.19 to the dollar before recovering to close fractionally above 41. Many now expect the rupee to decline further before settling at between 43 and 45 to the dollar. The currency is being undermined by fears

that sanctions will lead to reduced inflows of foreign portfolio investment, grants and multilateral loans.

There are also concerns that the new "risk premium" attached to Indian corporate loans overseas has effectively cut Indian companies off from external borrowing.

A sudden stampede is highly unlikely in India's regulated currency markets - where forward speculation is banned and the Reserve Bank intervenes actively, often with the support of State Bank of India. But a weak rupee makes it difficult to cut interest rates to boost India's moribund economy. Krishna Guha, Bombay

THAI DECREES

Door opened to bond issues

Thailand's parliament yesterday ratified four emergency financial decrees allowing the government to raise a combined \$18bn in foreign and domestic bonds and improve the process of disposing of the assets of 56 finance companies shut down last year.

Government officials called the passage of the decrees a matter of "life and death" for the troubled Thai economy, which is contracting under a severe liquidity crunch. Passage of the decrees had been delayed since Thursday of last week because of legal obstacles thrown up by the political opposition.

Their ratification, by a surprisingly large margin of 204 to 152, allows the government to submit its fourth letter of intent to the International Monetary Fund today and appoint underwriters for the global bond issue later this week.

But the prospect of increased liquidity does not mean interest rates will fall in the short term, warned the new central bank governor, Chatumongkol Sonakul. He said that interest rates would remain an important tool for the government to manage the economy, especially if it was allowed by the IMF to run a deficit of up to 3 per cent of gross domestic product this year. Ted Bardeston, Bangkok

INCLUDES A NEW RANKING OF FT 500 COMPANIES BY TOTAL SHAREHOLDER VALUE

FT FINANCIAL TIMES

Q: Who benefits from Shareholder value?
A: Shareholders, employees and customers
 How can your company benefit?

Shareholder Value, a management report from FT Finance, presents the issues around shareholder value techniques objectively in clear, non-technical language. The report explains how shareholder value can:

- Increase your company's competitiveness in today's global markets
- enable you to appraise corporate performance, set remuneration packages for managers and analyse strategic options
- provide a financial measure of your management methods

Shareholder value has benefited companies like Coca-Cola, Disney, Boots and ICL.

Order this report now to find out how shareholder value can benefit you!

Published July 1997 Price £395/US\$ 670

Includes illustrations from Daimler Benz, Boots and Lloyds TSB

FT Finance, Maple House, 149 Tottenham Court Road, London W1P 9LL, UK.

ORDER THIS ESSENTIAL REPORT NOW 22526M

Return Address: Customer Services, FT Finance, Maple House, 149 Tottenham Court Road, London W1P 9LL, UK. Tel +44(0)171 896 2294 Fax +44(0)171 896 2274

HOW TO PAY

Please debit my credit card

☐ Visa ☐ Mastercard ☐ Amex ☐ Diners

Card No.

Exp. Date

☐ I enclose a cheque made payable to FT Finance for the sum of £/US\$

☐ Please invoice me for the full rate (to be billed in 6 months)

EU Companies (except UK) must supply TWENTYTHREEMONTHWARRANT numbers to avoid extra charges

Signature

Date

FT Business Ltd, Registered Office: Maple House, 149 Tottenham Court Road, London W1P 9LL, UK. Registered in England and Wales. Number 20201.

The information you provide will be held on our database and may be used to keep you informed of our and our associated companies' products and for selected third party mailings

INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS																
Trade figures are given in billions of European currency units (BEC). The BEC exchange rate shows the number of national currency units per BEC. The nominal effective exchange rate is an index with 1990=100.																
UNITED STATES				JAPAN				GERMANY								
Exports	Imports	Current account	Effective exchange rate	Exports	Imports	Current account	Effective exchange rate	Exports	Imports	Current account	Effective exchange rate					
1997	222.2	-131.8	-145.6	1,154.1	107.9	194.7	83.7	75.5	108.58	104.7	254.4	68.8	40.8	2,077.0	97.3	
1996	272.5	-100.2	-104.4	1,183.0	100.5	210.7	79.8	67.0	151.51	115.9	272.6	67.4	42.4	2,070.9	96.6	
1995	330.2	-98.3	-94.8	1,017.1	104.8	245.5	70.8	53.4	115.71	110.8	317.1	65.1	47.5	2,081	95.9	
1994	305.0	-79.3	-72.1	1,274.5	107.0	220.0	50.8	35.5	183.94	99.9	324.5	51.8	38.4	2,053	90.0	
1993	340.5	-58.5	-4.6	1,230.1	96.5	248.4	77.7	57.4	180.44	108.4	327.8	11.1	-14.4	2,048.0	89.2	
1992	345.9	-85.2	-43.5	1,257.0	96.5	256.6	98.2	88.7	184.05	113.6	320.8	16.8	-14.8	2,017	85.1	
1991	397.3	-98.7	-77.6	1,705.0	95.5	300.3	116.6	124.4	180.31	136.5	325.2	30.6	-12.0	1,937	106.1	
1990	432.3	-127.0	-112.6	1,187.0	97.9	325.0	121.7	110.5	120.89	147.0	380.2	37.5	-17.1	1,918	108.4	
1989	492.3	-122.8	-99.9	1,230.0	91.8	331.1	101.3	85.3	121.43	154.4	423.0	67.1	-17.5	1,859	118.9	
1988	496.0	-135.9	-118.3	1,236.0	96.8	319.8	95.6	92.6	136.24	134.0	418.8	50.0	-17.0	1,864	118.9	
1987	608.0	-160.8	-147.2	1,100.0	94.4	361.9	88.8	83.1	138.84	126.1	435.5	62.1	-0.9	1,894	105.9	
2nd qtr.1997	129.8	-36.7	-33.2	1,136.0	94.2	84.2	24.9	23.2	136.15	127.1	111.6	15.2	2.4	1,911	104.4	
3rd qtr.1997	139.2	-44.1	-38.8	1,093.0	105.1	85.3	24.6	24.2	135.47	131.1	117.2	17.5	-2.1	1,867	102.3	
4th qtr.1997	157.9	-41.3	-40.6	1,124.0	104.6	89.8	25.1	24.8	140.91	122.2	116.7	19.2	3.8	1,974	103.9	
1st qtr.1998	165.2	-49.2	-40.6	1,067.0	100.7	88.1	27.2	26.7	138.73	121.2	120.6	17.4	-2.5	1,877	101.7	
May 1997	80.5	-12.7	n.a.	1,144.0	103.8	32.8	10.2	9.1	135.02	127.5	87.7	4.7	-1.4	1,949	104.6	
June	81.4	-11.9	n.a.	1,132.0	102.5	31.9	7.8	7.2	129.31	133.1	38.0	5.4	2.4	1,953	104.8	
July	92.5	-14.2	n.a.	1,101.0	103.7	32.3	7.8	7.2	126.84	133.5	38.4	5.3	-0.7	1,972	102.1	
August	94.5	-14.3	n.a.	1,096.0	106.0	32.7	9.5	8.5	125.99	132.2	38.2	4.4	-3.3	1,987	101.9	
September	92.3	-15.8	n.a.	1,074.0	105.7	30.3	7.0	6.8	132.58	127.6	40.5	7.7	1.9	1,981	103.0	
October	93.1	-13.6	n.a.	1,111.0	104.9	31.4	9.0	8.1	135.38	128.6	38.8	4.8	-2.4	1,985	103.3	
November	92.9	-13.0	n.a.	1,141.0	105.8	29.2	8.4	8.1	143.21	121.4	39.2	5.4	0.7	1,974	103.5	
December	93.3	-14.7	n.a.	1,112.0	108.3	29.2	7.7	7.8	144.17	118.7	38.6	6.1	-0.5	1,971	102.1	
January 1998	92.7	-15.8	n.a.	1,087.0	108.9	30.4	8.1	7.4	140.80	120.0	40.6	4.3	-0.5	1,976	102.9	
February	91.7	-16.1	n.a.	1,082.0	104.8	29.8	10.5	11.4	137.00	123.4	40.3	6.1	-0.2	1,974	102.7	
March	93.9	-17.3	n.a.	1,087.0	108.1	29.8	8.7	8.0	140.17	120.6	40.0	6.9	4.7	1,935	102.5	
April				1,087.0	108.7				144.3	117.8				1,916	103.0	
FRANCE				ITALY				UNITED KINGDOM								
Exports	Imports	Current account	Effective exchange rate	Exports	Imports	Current account	Effective exchange rate	Exports	Imports	Current account	Effective exchange rate					
1997	128.5	-4.8	-3.7	8,296.0	98.9	101.0	-7.7	-1.9	149.43	100.9	112.3	-16.4	-5.8	0.747	98.4	
1996	141.8	-4.7	-3.4	7,054.0	98.9	108.3	-8.9	-5.4	153.8	97.6	120.5	-32.3	-34.9	0.843	105.4	
1995	162.9	-8.3	-5.4	7,019.0	98.9	127.8	-11.3	-10.7	160.2	98.5	137.0	-36.7	-33.3	0.672	102.3	
1994	176.1	-7.2	-7.2	8,202.0	100.0	100.0	-8.3	-12.9	152.2	100.0	142.3	-26.3	-26.2	0.718	100.0	
1993	175.4	-4.2	-4.6	8,943.0	98.3	127.0	-10.5	-12.9	181.3	98.6	147.7	-14.7	-14.7	0.702	100.7	
1992	182.5	-4.5	2.9	8,420.0	101.5	101.5	-17.9	-8.0	139.15	95.5	145.9	-17.8	-18.8	0.733	95.7	
1991	178.6	13.3	5.0	8,281.0	105.0	144.9	18.1	8.7	138.7	80.4	166.0	-17.3	-13.2	0.778	89.0	
1990	188.9	12.6	5.4	8,659.0	106.1	181.4	18.8	120.89	76.9	174.1	-14.4	-0.1	0.776	89.2		
1989	218.7	10.4	8.4	8,440.0	108.2	189.2	21.8	20.7	210.84	98.3	186.0	-14.1	-4.5	0.818	84.8	
1988	230.2	13.8	18.4	4,038.0	105.1	172.2	25.4	32.8	193.0	75.7	289.0	-15.8	-0.2	0.828	82.3	
1987	255.6	17.2	35.1	6,925.0	105.6	100.0	54.0	6.8	6.2	192.6	75.3	24.0	-4.5	6.4	6,996	100.5
2nd qtr.1997	62.8	7.5	10.1	6,759.0	108.0	60.0	6.8	6.2	192.6	75.3	61.0	-4.5	6.4	6,996	99.8	
3rd qtr.1997	69.2	7.8	8.4	6,620.0	104.2	62.0	6.8	10.5	181.8	78.0	64.1	-3.2	0.2	6,705	102.2	
4th qtr.1997	67.1	7.5	8.8	6,214.0	105.6	55.6	6.5	8.3	193.4	78.1	63.0	-6.2	0.2	6,772	103.0	
1st qtr.1998				6,673.0				-0.5	194.6	78.3				6,696	105.4	
May 1997	20.8	2.5	3.7	6,725.0	106.1	18.2	2.5	2.1	1,925.6	79.2	18.9	-1.2	n.a.	0.700	95.04	
June	21.6	2.8	2.9	6,692.0	106.1	18.1	2.2	2.0	1,916.8	79.3	20.4	-1.7	n.a.	0.887	95.04	
July	22.0	3.2	4.1	6,554.0	103.8	21.5	5.8	7.2	1,901.0	79.0	22.4	-1.0	n.a.	0.692	104.5	
August	21.1	2.6	2.5	6,575.0	104.8	21.2	2.6	2.1	1,898.0	79.3	21.1	-1.3	n.a.	0.667	102.1	
September	21.6	1.8	1.8	6,930.0	109.9	19.2	0.6	1.2	1,914.8	79.2	20.6	-1.9	n.a.	0.682	104.0	
October	23.0	3.0	4.9	6,593.0	105.5	20.6	3.1	3.4	1,926.4	75.2	20.8	-2.0	n.a.	0.683	101.1	
November	21.5	1.9	2.0	6,546.0	105.8	17.9	2.0	2.0	1,938.4	78.2	20.3	-2.9	n.a.	0.678	102.8	
December	22.6	2.8	2.8	6,678.0	109.8	22.6	1.4	1.4	1,925.5	75.4	21.9	-3.8	n.a.	0.670	101.0	
January 1998	22.3	2.5	2.7	6,517.0	105.2	14.4	0.0	0.1	1,943.7	75.4	20.4	-1.8	n.a.	0.654	104.8	
February	22.2	2.1	3.5	6,619.0	108.2	17.6	0.9	0.4	1,948.7	75.2	20.4	-3.8	n.a.	0.638	104.7	
March				6,494.3	104.8			-0.9	1,953.3	75.2				0.632	106.0	
April				6,498.8	105.1				1,967.0	75.2				0.636	107.1	
Due to the introduction of the Single Market, EC countries are currently changing to a new system of compiling trade statistics. All trade figures are seasonally adjusted, except for the Italian series and the German current account. Imports can be derived by subtracting the visible trade balance from net exports. Export and import data are calculated on the FOB basis.																

THE AMERICAS

Saddam warned as US forces withdraw

By Nancy Dunne in Washington

William Cohen, US defence secretary, yesterday warned Saddam Hussein, Iraq's president, against "taking comfort" from partial withdrawal of US troops in the Gulf because a rapid deployment force could be reconstituted in 48 hours.

"The bomber force can go back in very quickly," he said in a US television interview yesterday. "We will have far more pre-positioned equipment."

The Pentagon announced on Sunday that the aircraft carrier Independence with 75 aircraft was being withdrawn from the Gulf, accompanied by five ships. This will leave the carrier John Stennis in the Gulf, as well as 280 aircraft and 17,000-20,000 troops.

US forces were sent to the region last November when Iraq denied United Nations weapons inspectors unfettered access to sites suspected of containing chemical and biological weapons. "Tensions have eased somewhat, but he [Saddam] remains a threat to the region," Mr Cohen said.

US President Bill Clinton has yet to make a formal decision to reduce the force level in the Gulf and the latest moves can be reversed. In the meantime, it is necessary to rotate troops who have been serving six months in a "combat zone".

The Independence, the oldest US carrier, is already moving towards Japan. Unless there is an emergency it will proceed to Hawaii and then Washington state for decommissioning.

A Pentagon spokesman said the partial withdrawal "should not be misinterpreted as a lessening of US resolve". Congress was expected to approve soon the \$1.9bn requested by the Pentagon for the additional cost of keeping a force to threaten Mr Saddam "in case he gets up to his old tricks".

Canadian hockey teams cry foul as poor results continue

By Edward Alden in Toronto

These are not the best of times for Canada's national sport. Not a single Canadian team reached the semi-finals of the Stanley Cup, professional hockey's top prize, which started at the weekend. Canada has not brought home the cup, which goes to the winner of North America's National Hockey League championship, since the Montreal Canadiens won it in 1993.

Internationally the country has fared little better. The Olympic hockey team, the brightest collection of stars the country could assemble, finished fourth in the Nagano Olympics, losing to the Czech Republic and Finland. Canada did not even reach the medal round in the world hockey championships last weekend.

While most Canadians acknowledge that Europeans and Americans are getting better at the sport they once dominated, the heads of Can-

ada's six National Hockey League franchises have a different explanation: unfair competition.

In one of the more entertaining shows to come to Canada's parliament recently, the leaders of the hockey establishment told MPs last month that the problems facing hockey in Canada were just like those of the aerospace and other high technology industries.

"We suffer a competitive disadvantage," says Rod Bryden, president of the Ottawa Senators. "Hockey is now a global industry, where cities compete with unfair subsidies to attract the best franchises and players from around the world. Unless Canada provides a level playing field for its hockey teams, they will not likely survive."

Ken Dryden - the star goaltender for the Montreal Canadiens team, which won the Stanley Cup six times during the 1970s - who is president of the Toronto

Maple Leafs, says the six teams suffer the common handicap of a weak dollar and high taxes. This has brought several franchises to the brink of bankruptcy.

Two cities, Winnipeg and Quebec, have already lost their teams to the US. The Edmonton Oilers almost left this spring for Houston before they were rescued by local investors.

To the casual fan the biggest problem appears to be the exorbitant salaries earned by NHL stars. The Calgary Flames, for example, had a total payroll of \$36.8m in 1996 when they won the Stanley Cup; today the figure is \$25.8m (\$17.6m). Even that is near the bottom of the league, which is where the Flames have finished in recent years.

The clubs cite two other problems. The first is the exchange rate of the Canadian dollar, which remains below 70 US cents while players' salaries must be paid in US currency. Mon-

tréal president Ronald Corey says that whenever the dollar loses a penny, it costs his team \$300,000. The league has instituted a Canadian currency equalisation plan, under which US teams contribute about \$2.5m annually to each of their beleaguered Canadian brethren.

The second problem is taxes. The six Canadian teams paid a total of \$4.4m in property and capital taxes last year compared with the equivalent of \$4.1m for all 20 US clubs combined. Thirteen American teams paid no taxes at all.

US cities, eager for the prestige that comes with luring a professional sports franchise, have built arenas and offered long-term tax-free deals to attract hockey teams to such unlikely places as Florida and Nashville, Tennessee. If hockey were covered under the North American Free Trade Agreement, quip parliamentarian opposition leader Preston Manning, Canada could



On the defence: The Ottawa Senators (in white) take on the Carolina Hurricanes earlier this year. AP

probably launch a successful dispute case against unfair US subsidies.

Despite Canadians' love of hockey, the plea for government largesse seems unlikely to win much sympathy from fans who see too many of the stars as overpaid moaners and too many

clubs as badly managed. But the owners missed no opportunity to curry sympathy by tugging at the fragile Canadian sense of identity.

Calgary president Harley Hotchkiss grows misty-eyed recounting his childhood in rural Alberta, skating on frozen farm ponds using his

boots as goalposts, and huddling around the radio to listen to broadcasts of the Maple Leafs' games. "Hockey is a unique common bond that helps to identify us and keep us together as Canadians," he says. "It deserves whatever governments can do to save it."

Virgin Islands clears oil stake

By Canute James in Kingston

Legislators in the US Virgin Islands have approved the purchase of a 50 per cent stake in Hess Oil Virgin Islands Corporation by Petroleos de Venezuela (PDVSA). The Venezuelan company will pay \$625m over 10 years.

In addition to its stake in the 425,000 barrels per day (bpd) refinery, PDVSA will build a 45,000 bpd coking unit in the next two years, and supply between 155,000 bpd and 270,000 bpd of heavy crude to the facility for 20 years after the coker is built.

The 20-year supply contract was a condition demanded by PDVSA. The Venezuelan group and Hess Oil concluded the agreement earlier this year,

but they had to await ratification by the US territory's Senate as legislative approval was needed for a continuation of tax concessions granted to Hess Oil.

Under the accord the refinery will pay \$2m more each year in property taxes after the coker is built, bringing the company's total property tax bill to \$12m. It will also make a \$8m contribution to education in the US territory, situated in the north-east Caribbean.

Hess Oil is exempt from US import duties on the crude which it brings to the Virgin Islands, while petroleum products it ships to the US mainland are duty-free.

Hess sought PDVSA's partnership in the refinery, one of the largest in the world, following accumulated losses of about \$1.2bn since 1991.

Upheavals in Ecuador rattle foreign investors

Justine Newsome on the long-running political crisis that is leading to slower growth and accelerating inflation

"Ecuador is sinking" was the headline of Guayaquil's business daily newspaper, El Universo, earlier this year. It was not referring just to the El Niño flood waters which have devastated the country's coast, leaving more than 20,000 people homeless, washing away 2,500km of roads and causing farmers losses exceeding \$1bn.

El Niño and a drastic drop in the price of oil, Ecuador's largest export and generator of 35 per cent of government revenues last year, have combined with political upheavals to leave the country in crisis.

Economic indicators reflect this. Growth is likely to slow to 1.5 per cent this year, against an average annual rate of 2.5 per cent since 1985, according to Fidel Jaramillo, former head of

the central bank. Inflation could accelerate to more than 40 per cent, from 30.7 per cent last year and a low of 22.9 per cent in 1995. This year's fiscal deficit exceeds 6 per cent of gross domestic product.

But the country's biggest problems are still political. The government of Abdalá Bucaram, the last democratically elected administration, was curtailed by Congress in February 1997 after only six months, following allegations of corruption.

Now scandals are plaguing the government of Fabián Alarcón. Mr Bucaram's congressionally appointed successor.

Mr Alarcón will have just 18 months in power before handing over to a newly elected president. The first stage of presidential elec-

tions on Sunday is followed by a second round run-off on July 12. The winner takes office in August.

Heading a weak coalition government, the interim president has been reluctant to take tough decisions on economic reform which could lose him or his party votes. Meanwhile, a national assembly elected last year to reform the constitution has been at loggerheads with Congress and the president.

Foreign investors have been losing faith. The country's first big sell-off - of telecommunications company Emetel - has been cancelled twice in six months due to lack of bidders. The prices of Ecuador's Brady bonds, paper exchanged for distressed commercial bank debt, are the cheapest in Latin America.



Alarcón: weak coalition

"Things can't get much worse and more bad news won't mean much. Ecuador's real problem is governability," says an analyst at one New York investment bank. The national assembly has introduced reforms aimed at strengthening the executive. For example, a minister

impeached by Congress will no longer be automatically dismissed. Impeachment proceedings and the consequent high turnover of ministers have consistently disrupted congressional business and policymaking.

Mid-term congressional elections, which have tended to cut a president's support in Congress, have also been eliminated and Congress's power over the state budget has been limited.

Any new government will have the advantage of a receding El Niño and a full 4½ years to carry out a programme. Now investors are looking to a new president to take advantage of the constitutional changes.

"Without a big rally in oil prices, the value of Ecuador's Brady bonds is dependent on the election result and if we finally see reforms," says one New York-based investor.



World leader in Environmental Services and one of the major European leaders in Communication and Construction, Vivendi employs 220,000 people in 90 countries. Its turnover is close to \$35bn and its net income is expected to exceed \$1.1bn in 1998. Vivendi's market capitalisation

is close to \$30bn (mid 1998). Vivendi is part of the DJ Euro Stoxx 50.

In Europe too, Vivendi's activities are every day helping to improve the quality of life for millions of people and the company has annual sales here of more than \$30bn.

Through Vivendi and its subsidiary Compagnie Générale des Eaux, more than 35 million Europeans have the benefit of our water and waste-water facilities. With their services geared to quality and convenience, our teams are active in France, the UK, Spain, Italy and Central Europe in particular.

Vivendi is also the leading European company in the field of heating energy management. The Compagnie Générale de Chauffage ensures heat and comfort for several million people in 23 European countries.

Through Onyx, Vivendi provides waste management services all over Europe in major cities such as Paris, London (City of Westminster) and Birmingham. Onyx is active across the whole chain of urban cleaning, recycling and in waste recovery and incineration.

In the field of public road or rail transport (through CGEA in Nice, through Connex in London, through DEG in Munich and elsewhere in Europe), Vivendi carries more than 600 million European passengers per year.

The Channel Tunnel, the Vasco da Gama Bridge in Lisbon and the Stade de France are all the state-of-the-art technical achievements of Vivendi's SGE construction subsidiary.

CGIS, Vivendi's property subsidiary, is the leading commercial property operator in Europe, building almost 10,000 individual and group units each year.

Quality of life for today and tomorrow means the exchange of images and information. Vivendi through Cegetel and Havas is active in mobile and fixed telephones, the Internet, publishing and multimedia. Vivendi is also a share holder of Canal Plus, the European leader in pay-TV and digital TV.

VIVENDI

COMMITTED TO MEETING YOUR LIFE'S EVER-CHANGING NEEDS.

www.vivendi.com

WORLD TRADE

Mediators urge Canada aviation change

By Jonathan Wheatley
in São Paulo

Mediators in a dispute between Canada and Brazil over alleged subsidies to both countries' aviation industries have recommended the prohibition of contributions offered by the Canadian government in the form of joint ventures to Bombardier, the Montreal-based aircraft manufacturer.

A source close to the talks said joint ventures offered by the Canadian government amounted to import substitution subsidies and ran contrary to World Trade Organization agreements.

The recommendation is contained in a report prepared by independent negotiators appointed to defuse an escalating dispute between the two countries, arising from growing rivalry between Embraer of Brazil and Bombardier, the main competitors in the global market for civil regional jets.

The report was presented to the two governments earlier this month and is expected to form the basis of a

treaty on aircraft exports. The source said the recommendation was based on findings that the Canadian government had entered joint ventures with Bombardier and subsequently written off its investments as losses, granting in effect import substitution subsidies. Both practices were proscribed by the WTO.

The mediators were appointed after Jean Chrétien, the Canadian prime minister, met Fernando Henrique Cardoso, Brazil's president, during a visit to Brazil in January. Both governments had threatened to call for bilateral talks at the WTO. Canada accused Brazil of providing subsidies to Embraer, the Brazilian manufacturer privatised in 1994, through its export programme, known as Proex. Brazil subsequently accused Canada of direct subsidies to Bombardier. The leaders agreed to suspend calls for talks and appoint independent mediators.

The report was submitted to the governments earlier this month. It found that

Proex was a legitimate programme but recommended measures be taken to guard against its potential abuse by commercial banks. Proex provides finance for exporters at interest rates much lower than those available in Brazil, but in line with levels on international markets.

Bombardier leads the market with 330 firm orders for its 50-seat Canadair Regional Jet. Its dominance has been challenged by Embraer's ERJ-145, which has led the company's turnaround since privatisation.

Embraer has 180 firm orders for the aircraft and 245 options. It recently launched a 37-seat version, the ERJ-135, for which it has 73 firm orders and 122 options. Embraer is considering legal action against Bombardier after it was excluded from a Nato contract managed by Bombardier for supply of training aircraft in Canada. Embraer had been due to supply its Tucano trainer in a \$100m deal, and claims it was excluded as a result of the success of the ERJ-145.

The planned shake-up is part of a package of measures which shareholders have planned to put the project back on track after management last year failed to meet their targets, according to western executives close to the consortium.

The project - funded by 10 of the world's biggest international oil companies - envisages a 1,500km pipeline to run from the Tengiz oil field in western Kazakhstan to a dedicated export terminal near the Russian Black Sea port of Novorossiysk.

However, the project has been plagued by political and commercial disputes since its inception in 1992. The progress of CPC has been watched closely by the world's oil industry, which sees it as a bellwether for international co-operation in opening the vast oil resources of the Caspian to world markets.

The top six jobs at CPC are reserved for certain companies within the consortium. The general director is nominated by Lukoil, the Russian oil company.

Senior posts are also reserved for other big shareholders, such as Chevron and Mobil of the US - which between them own 70 per cent of Tengiz - and Rosneft, Russia's largest remaining state-owned oil company.

Shareholders are thought to have been especially concerned about the failure of top CPC executives to delegate authority. In addition to management changes, shareholders are expected to set new performance targets for the CPC. They will also monitor more closely the progress of the consortium.

The ILO estimates that some 250m children in developing countries are working full or part-time.

Caspian group awaits shake-up

By Robert Coombe in Almaty

A management shake-up is expected over the next few weeks at the Caspian Pipeline Consortium (CPC), the \$2.6bn project to build the first new oil export system from the Caspian Sea region since the break-up of the Soviet Union.

The move marks a significant shift from the traditionally punitive stance towards countries failing to respect such standards - often involving trade sanctions - to an incentive-based approach.

The EU incentives plan applies to developing countries which already benefit from the so-called Generalised System of Preferences (GSP), reduced tariffs for manufactured goods and processed agricultural products imported into the EU. The tariff cuts range from 15 per cent to total exemptions.

Special incentives will be available to countries which implement the substance of three International Labour Organisation (ILO) conventions.

They must allow trade unions, collective bargaining, and aim to eradicate child labour. They must also meet standards for forest preservation set by the International Tropical Timber Organisation.

If all GSP countries signed up to measures making them eligible for the special incentives, they would save some Ecu700m a year.

Member states of the ILO are due to adopt a solemn declaration on core labour standards at this year's annual conference, which opens next week.

In addition, the conference will give a "first reading" to an ILO convention aimed at the rapid elimination of the most intolerable forms of child labour and exploitation.

The ILO estimates that some 250m children in developing countries are working full or part-time.

EU tariff cuts for labour pledges

By Neil Buckley in Brussels and Frances Williams in Geneva

European Union trade ministers yesterday agreed to offer tariff cuts worth up to Ecu750m (\$884m) a year to developing countries that sign up to international standards on child labour and environmental protection.

The move marks a significant shift from the traditionally punitive stance towards countries failing to respect such standards - often involving trade sanctions - to an incentive-based approach.

The EU incentives plan applies to developing countries which already benefit from the so-called Generalised System of Preferences (GSP), reduced tariffs for manufactured goods and processed agricultural products imported into the EU. The tariff cuts range from 15 per cent to total exemptions.

Special incentives will be available to countries which implement the substance of three International Labour Organisation (ILO) conventions.

They must allow trade unions, collective bargaining, and aim to eradicate child labour. They must also meet standards for forest preservation set by the International Tropical Timber Organisation.

If all GSP countries signed up to measures making them eligible for the special incentives, they would save some Ecu700m a year.

Member states of the ILO are due to adopt a solemn declaration on core labour standards at this year's annual conference, which opens next week.

In addition, the conference will give a "first reading" to an ILO convention aimed at the rapid elimination of the most intolerable forms of child labour and exploitation.

The ILO estimates that some 250m children in developing countries are working full or part-time.

BA and American fly through flak from Justice Department's antitrust guns

But a bigger test is to come when the Transportation Department considers the fate of the two airlines' proposed alliance. **Richard Wolfe** reports from Washington

British Airways may try to draw some comfort from the US government's first views on BA's long-delayed alliance with American Airlines.

But if there is some suggestion of room for manoeuvre over scarce take-off and landing slots at London's Heathrow airport, there is little doubt that the US Justice Department is strongly opposed to almost every aspect of the BA-AA deal.

In a 43-page submission to the Transportation Department last week, US antitrust officials said there was no basis for allowing the deal to go ahead in its current shape. "The alliance as proposed will significantly reduce competition in many US-UK city pairs, without producing sufficient efficiencies to outweigh the harm," it said.

In short, if the Justice Department were reviewing the alliance under antitrust laws, it would seek to block the deal.

It is fortunate for the two airlines that antitrust officials are not the final judges of whether the deal should be approved by the US government. Instead, the Transportation Department has the power to approve the deal if it finds the alliance

will bring public benefits that outweigh the harm to transatlantic competition. A final decision is expected later this year.

Chief among these public benefits is an "open skies" bilateral treaty. But the Justice Department concludes the deal would still need to be rewritten, in addition to an "open skies" treaty.

The department's demands consist of two proposals - to "carve out" some transatlantic routes, and to allow rivals more access to the severely constrained facilities at Heathrow airport.

BA and American would have to make available enough slots for at least 24 daily round-trip flights - or 336 weekly take-off and landing slots - to open Heathrow to its competitors. That compares with 350 slots demanded by the European Commission, whose proposals BA has already rejected as excessive.

The Justice Department breaks down the 24 daily round-trips into two areas. One set of slots - representing 14 daily round-trips - needs to be divested on routes where new rivals are likely to enter.

Another set of slots is needed to bolster an "open skies" agreement. Antitrust

officials say "open skies" will not free up the market enough to counter the alliance's damaging impact, because Heathrow's capacity is so constrained.

BA says it is encouraged by this distinction, arguing it will have to give up slots for only 14 daily round-trips. But the Justice Department is unclear on this point. While it admits the source of the extra 10 slots is "irrelevant", it insists the alliance should be forced to divest slots for all 24 round-trips if other sources are unavailable. In any case, both sets of slots would have to go to rivals of BA and American.

Because the UK government says it cannot create new slots under an "open skies" agreement, the Justice Department says it is unlikely that new slots will emerge in time to compete with the alliance.

The department rejects the alliance's argument that its rivals could buy slots from other airlines, saying the prices would be too high. It also rejects the UK Office of Fair Trading's proposal to divest slots for just 12 daily round-trips.

At the heart of Justice Department concerns is that the two airlines are arch-rivals. "American's aggressive growth since it acquired TWA's route rights in 1981 has made it BA's primary rival for most of its US-UK service," the report says. "Current frequency and capacity levels are largely a result of the AA-BA rivalry."

In New York, for instance, a tie-up would give the two not just the lion's share of traffic but also the strongest brands and most attractive frequent flyer schemes. On top of such marketing strengths, BA has a "reservoir of Heathrow slots" which give it the greatest scope to add more flights.

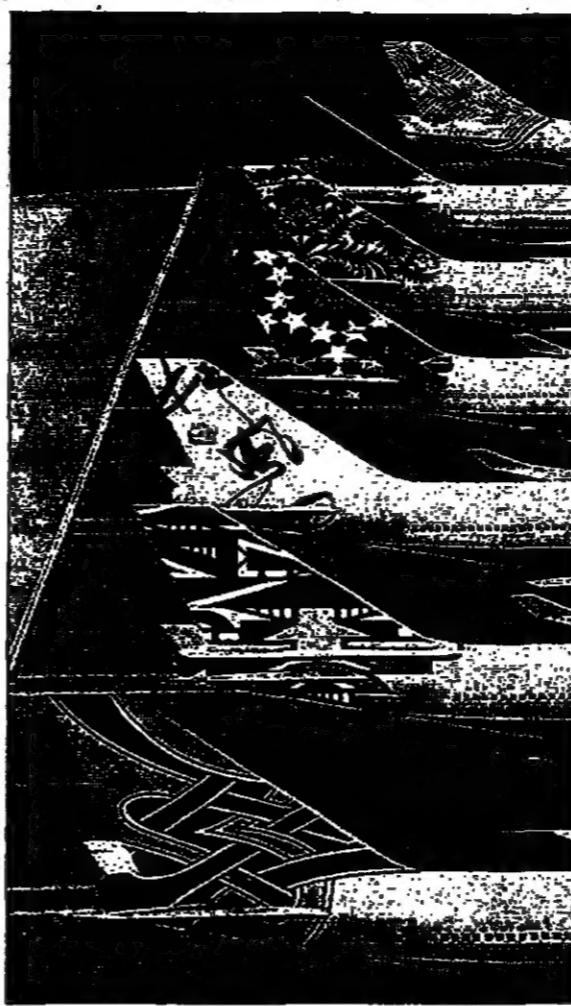
Compared with other airline alliances, BA's link-up with AA affects far more passengers and dominates the transatlantic market, Justice officials said. The consumer benefits are also more limited than other alliances, because of the extensive nature of both American's and BA's own airline networks. BA already serves 19 US cities, which are central to transatlantic flights.

BA and American would together be the dominant service on six non-stop routes across the Atlantic, where the two airlines currently compete. The routes include New York, Boston, Miami and Los Angeles.

On the other two Heathrow routes, Dallas and Chicago, the airlines' position is so dominant that antitrust officials say the routes should be excluded or carved out of the alliance.

Joel Klein, head of the antitrust division at the Justice Department, said: "From a competitive point of view, this is a troubling alliance and therefore only a very strong remedy could possibly justify its approval."

Joel Klein, head of the antitrust division at the Justice Department, said: "From a competitive point of view, this is a troubling alliance and therefore only a very strong remedy could possibly justify its approval."



Talks up: BA is still hoping to win approval for American deal

To see over the horizon,
you need to
be over the horizon.

At HSBC Asset Management, we help you to see over the horizon. We help you to see over the horizon. We help you to see over the horizon.

At HSBC Asset Management, we help you to see over the horizon. We help you to see over the horizon. We help you to see over the horizon.

At HSBC Asset Management, we help you to see over the horizon. We help you to see over the horizon. We help you to see over the horizon.

HSBC Asset Management

Member HSBC Group

WORLD CLASS PERFORMERS

VANCOUVER: (616) 257 7000. NEW YORK: (212) 854 7816. LONDON: (44) 1753 8888. HONG KONG: (852) 2881 0711. SINGAPORE: (65) 330 3338. TOKYO: (81) 3 333 4290. MELBOURNE: (61) 3 8335 3336.

"HSBC ASSET MANAGEMENT" IS A WORLDWIDE GROUP OF COMPANIES ENGAGED IN INVESTMENT ADVISORY AND FUND MANAGEMENT ACTIVITIES AND WHICH ARE ULTIMATELY OWNED BY HSBC HOLDINGS PLC. ISSUED IN THE UK BY HSBC ASSET MANAGEMENT EUROPE LIMITED, REGULATED BY INRO.

Vivendi is the new waste management.

Rand fears grow as capital flow eases

By Greta Steyn in Johannesburg

The flood of foreign capital into South Africa has dried up abruptly in the past month, raising fears of a currency crisis and casting a pall over the interest rate outlook.

The Reserve Bank stepped up its efforts to allay concerns over the currency yesterday after the rand hit a fresh record low of R5.17 to the US dollar in New York over the weekend. It closed yesterday at R5.14. The markets were awash with rumours of substantial central bank intervention in the market - put at \$100-\$200m.

"The rand's recent weakness has no fundamental basis and appears to have been exacerbated by speculators trying to induce instability," said James Cross, deputy governor of the Reserve Bank. Mr Cross also said the rand's depreciation, which was less than 2 per cent this month, was "nothing in international terms if one looks at what has happened to other emerging markets recently".

Currency traders and analysts believed the present wobble in the markets was small - until the Reserve Bank governor, Chris Stals, commented on the situation

last week. Mr Stals described the situation in global markets, which saw investors losing their appetite for risk in emerging markets, as "very, very dangerous". The comments triggered a sell-off in bonds last week from which the market is struggling to recover. The outflow of foreign portfolio investors, which was already cooling down rapidly, froze as worries about the currency deepened.

Net foreign purchases of South African bonds, running at an average of R40m (\$700m) a month until April, fell to almost nothing this month. Buying of equities

has also declined, with analysts saying the foreign inflows into the Johannesburg stock exchange are probably being offset by South African financial institutions' scramble to take cash out of the country through asset swaps.

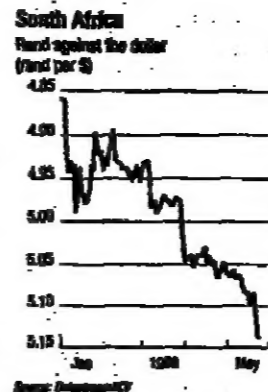
The pause in foreign capital inflows creates a headache for South African policymakers, as there is a current account deficit that needs to be financed without depleting low foreign exchange reserves. But analysts do not believe that a sell-off of the rand akin to 1996, when it lost about 20 per cent of its value, would

be justified. "In 1996, there was a policy vacuum. Now we have a clear idea of what the South African government wants to do. On fundamentals, there is no reason for the rand to depreciate sharply," said J.P. Morgan analyst Maarten Zuurmond.

He said the rand had been vulnerable for some weeks. The reasons were that interest rates in the money market had been too low, investors had less appetite for risk in emerging markets given the turmoil in Indonesia and the problems in Russia, and Mr Stals's comments had caused concern. "The rand is undergoing a

necessary adjustment. It would be wrong to have an overvalued currency in the present international environment for emerging markets," he said.

Mike Brown, economist at Société Générale Franche Polak, said the rand tended to have "a staircase" depreciation against the dollar, with a marked depreciation followed by a period of stability. "The rand is undergoing a necessary adjustment. It would be wrong to have an overvalued currency in the present international environment for emerging markets," he said. Nedcor Investment Bank



Surprise Saudi visit by Arafat

By Judy Dempsey in Jerusalem

Yasser Arafat, president of the Palestinian Authority (PA), has made an unexpected visit to Saudi Arabia amid attempts by the Palestinians to convene an Arab summit aimed at freezing relations with Israel.

Mr Arafat had talks with King Fahd. Meanwhile, Sheikh Ahmed Yassin, founder of Hamas, the Islamic resistance movement, visited Syria after a visit to Saudi Arabia where he was warmly received.

The PA and Hamas are at loggerheads over the strategy to adopt with Israel and the peace process. Mr Arafat is under pressure from the US and Israel to arrest terrorists suspected of belonging to Hamas, which has claimed responsibility for several suicide bomb attacks on Israeli civilian targets. So far, Hamas has not openly challenged Mr Arafat's leadership, fearing a civil war.

However, this could change following a meeting yesterday in Damascus between Sheikh Yassin and George Habbash, leader of the Popular Front for the Liberation of Palestine (PFLP), a radical Marxist group and opponent of the Israeli-Palestinian peace accord.

"We agreed to form a Palestinian front that would confront Israel with all possible means," Mr Habbash said after the talks. Mr Arafat is already under pressure from Fatah, his political power-base, which is re-examining its support for the PA's backing of the peace process.

Syria yesterday condemned Israel's plans to settle more Jews in the occupied Golan Heights, saying Benjamin Netanyahu, Israeli prime minister, was blocking all roads to peace. Syria's criticism follows repeated condemnation of Israel by Jordan. The king says he no longer trusts the Israeli premier to keep peace agreement promises.

World banking system is a 'money launderers' dream

Report says the ease and speed of 'megabyte money' make it simple to conceal crooked cash, writes Ian Hamilton Fazey

It was the biggest money laundering investigation in US history. Evidence had been gathered secretly over many months by undercover officers risking their lives. The suspects were lured to Las Vegas for a conference on - money laundering.

Then the police struck, arresting 22 banking officials from 12 of Mexico's largest financial institutions, plus 14 alleged members of Mexican and Colombian drug cartels and another 70 people linked to them. Seizure warrants were issued to recover \$122m from bank accounts in the US and Italy, to add to \$38m seized so far. The operation so damaged confidence in Mexican banks that their shares fell collectively by 4 per cent in panic selling.

But as Operation Casablanca struck its blow in the Americas, officials of the United Nations Drug Control Programme in Vienna were editing the final version of a report - to be released soon - that puts the US triumph into a gloomy perspective.

It says that at least \$200bn of drug money is laundered every year, but with the illegal international drug trade valued at \$500bn, this is

probably a conservative estimate. In a good year, up to \$500m will be recovered through anti-money laundering measures - an overall annual success rate of about a quarter of 1 per cent of laundered funds. Operation Casablanca, with \$157m, will probably help make 1998 good, but hardly vintage.

The report has been prepared by a group of experts for a special session of the UN General Assembly on drugs next month in New York. With the growth of the international drug trade, more ill-gotten money is being laundered than ever, partly on the back of electronic banking and the increasing globalisation and speed of operation of the international financial system.

Cashless transactions, electronic trading, and computerised clearing mean that what the report calls "megabyte money" can be moved anywhere with speed and ease. With 700,000 wire transfers worth \$2,000bn every day the report says it is "a reasonable guess that 0.05 per cent to 0.1 per cent... contain laundered funds to a value of \$300m".

And even though half the total volume of transactions are bank-to-bank transfers of aggregate funds for settlement or loans, the report says the "complexity of corrupted bank employees" ensures these also contain laundered money.

"This system is a money launderer's dream." The one thing law enforcement officers have on their side is that criminals have to play by the rules of the system in order to use it. While it is almost impossible to spot transactions in progress once money is in the system, criminals have to risk exposure in putting it there. UN officials want the process made riskier.

At present, criminals reduce their risk by operating through offshore financial havens with lax financial regulation and poor banking supervision. They also hide behind banking secrecy, and disguise the ownership of assets by setting up shell companies and offshore trusts in jurisdictions where no questions are asked about shareholders and beneficiaries.

Many accounts and trusts are known as "walking



Mexican women pretend to wash and iron money in a protest last week against money laundering. AP

ones, where there is a standing instruction to move the accounts to another jurisdiction at the first sign of inquiry by the authorities.

UN officials accept that commercial confidentiality, legal tax avoidance and the ease of capital transfers at low or nil tax rates are legitimate reasons for bank secrecy and disguising corporate ownership, but they say the system is too lax in some places, allowing infiltration for illicit or nefarious purposes.

"One of the most striking things about offshore financial centres is the enormous

increase that has taken place in the number of banks," says the report. Banks can be set up with relative speed and ease and a minimum of due diligence investigation, as long as they meet a basic level of funds, which can vary between one jurisdiction and another.

"This provides enormous opportunities for fraud.... It also offers attractive opportunities to create new banks in jurisdictions where regulations are either minimal or not always vigorously enforced - either because of a lack of will... or because monitoring and supervisory

capacity is lacking."

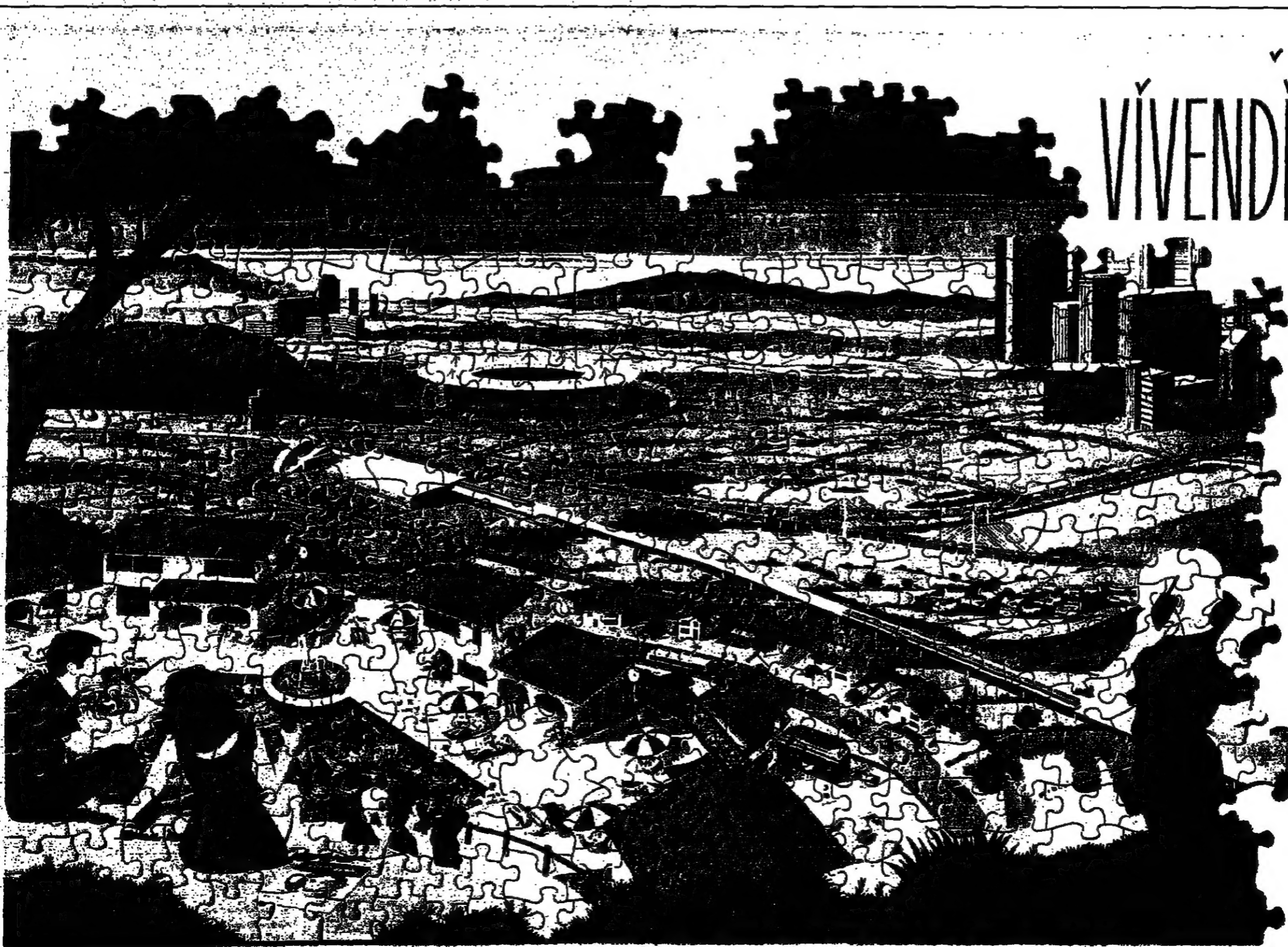
Some offshore centre banks are little more than "closets with computers," says the report, yet they have full access to the international financial system. Often, they also have correspondent status with principal clearing banks in the US and UK, which themselves appear to have sometimes been insufficiently diligent in making correspondence arrangements. Transactions between correspondent banks are rarely questioned by the senior bank and depositors assume that correspondence guarantees a

measure of safety. To try to get a better grip on the problem, UN officials will ask member states to legislate by 2003. The emphasis is on systemic reform rather than specific tinkering. The principles of bank secrecy, and the future of financial havens, trusts, shell companies and shell banks will be the main targets.

What is certain is that the international community will have to display a much greater degree of political will for this to get anywhere. In 1988, UN member states adopted the Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, which in theory made money laundering an internationally recognised crime and gave authorities the right to trace, freeze, seize and confiscate assets, notwithstanding banking secrecy.

As of February this year, however, 40 states of the UN's 185 members had still to sign the convention. Moreover, of those that have signed, UN officials estimate that fewer than 30 are implementing anti-money laundering measures substantially compliant with the convention.

Financial Havens, Banking Secrecy and Money Laundering, will be published early next month by the United Nations Office for Drug Control and Crime Prevention, PO Box 506, A-1400 Vienna, Austria



VIVENDI. COMMITTED TO MEETING YOUR LIFE'S EVER-CHANGING NEEDS.

Vivendi is the new name for Compagnie Générale des Eaux. Its role has grown from simply providing people with purer water, to providing energy, transport systems, waste management, construction and property, communications and telecommunications. In other words, simply to improve your everyday life, today and tomorrow.

BRITAIN

JAPAN CONCERN ON TRADE RELATIONSHIP

Blair steps into row over visit by emperor

By Andrew Parker and Gautam Malkani in London

Tony Blair stepped into the controversy over Japanese prisoners of war yesterday amid fears that a bad reception for Emperor Akihito in Britain could jeopardise attempts to bolster trade between the two countries.

He appealed to Britons to give the Emperor a warm welcome this week.

Despite the prime minister's unusual intervention, British survivors of Japanese prisoner of war camps vowed to turn their backs on the emperor today when he travels through central London in an open carriage to Buckingham Palace.

The second world war veterans are demanding a fuller apology for the brutality meted out in the camps than that offered in January by Ryutaro Hashimoto, the Japanese prime minister. They also want compensation.

As the emperor arrived in London last night, Mr Blair's official spokesman said he wanted the week-long visit to be a success, and added it would be wrong to allow the past to define Britain's relationship with Japan today.

He said the relationship had never been better, as demonstrated by trade and investment between the two countries.

The spokesman, citing a raft of statistics, said Japan was Britain's largest export market outside western Europe and the US, worth \$4.2bn (£700m) last year, more than 275 Japanese manufacturing companies were in the UK providing 85,000 jobs, and about 600,000 Japanese tourists visited the UK each year, contributing £500m to the economy.

Mr Blair's statement

reflected growing concern that Britain's trading relationship with Tokyo could be damaged by controversy surrounding the visit.

Arthur Titherington, chairman of the Japanese labour camps survivors association, said Mr Blair had no right to judge the veterans because he was not a prisoner. "Mr Blair's problem is that in order to keep his inward investment he will say almost anything."

Itaru Umezu, Japan's deputy ambassador to Britain, said the emperor was prevented by the country's constitution from making an apology.

A Downing Street spokesman urged today's demonstration to be dignified and peaceful.

Mr Blair's official spokesman said: "The prime minister wants Britain to give a warm welcome to the Japanese emperor and to see his visit as an opportunity to celebrate a strong, modern relationship between former enemies who are now close allies on so many issues."

"He believes we can never forget the past or the debt his generation owes to those who suffered; but this should not define our relationship today."

The spokesman added Mr Blair had been impressed during his visit to Japan in January by the country's desire for reconciliation. "He also believes that to allow our relationship to be defined solely by the past is to fail to understand fully the achievements of those who fought for freedom."

"He believes it's thanks to their sacrifices that Japan today is a very different country - democratic and with a commitment to peace."

Baker takes on French to become breadwinner

Alison Maitland meets the man who became a millionaire by learning, then improving, methods used across the Channel

The largest baguette factory in the world is not in France but on a nondescript industrial estate in a London suburb near Heathrow airport.

The plant is part of Le Pain Croustillant, Britain's leading supplier of part-baked, frozen bread to supermarkets, which has just been acquired for £44m by Tomkins, the diversified manufacturing group.

Richard Vanbergen, who has become a multi-millionaire through the sale of a company he established in 1987 to make French bread "as it used to be", has harsh words for modern bread-making in France.

"The French have automated the manufacturing processes and destroyed the taste," he says. "There are probably only 100 little bakeries in France where you can still get authentic French bread... They have destroyed their heritage."

Mr Vanbergen should know. In his quest for original bread to seduce the British palate, he has visited small bakeries across Europe. His staff studied techniques at test bakeries at Le Saffre,

a large yeast-making company in Lille, then set out to improve them.

According to Russ Cummings, investment manager for St, the venture capital group that has backed him for 18 years, Mr Vanbergen has "transformed consumer eating habits".

Yet loaves - and large quantities of dough - were not initially in his sights. In the 1970s, he decided to launch a chain of convenience shops. St backed the launch in 1980. But a larger chain bought him out.

Why, then, did St provide him with further financial backing after he changed course into bread-making?

Mr Cummings says it believed it was backing a good entrepreneur. "The great stories are where you have a leap of faith. The leap of faith certainly paid off. St has walked away from the Tomkins deal with about £11m in cash and its £11m-plus loans repaid."

Mr Vanbergen began baking bread for his stores when his bought-in supplies failed. Soon he was supplying other stores. "I knew nothing at all about bread, but I adopted



Richard Vanbergen giving the French some stick Malcolm Watson

the principle that if the monks could make it, I could."

The loaves are part-baked, then frozen and transported to stores, where baking is completed. He persuaded the supermarkets that his bread presented "a new eating opportunity" that would swell sales rather than undermine the mass market in sliced loaves.

Mr Cummings attributes Le Pain Croustillant's success to its commitment to customers, which now include all the leading supermarket groups. As the company has grown, it has held its prices steady through economies of scale.

Mr Vanbergen says Britons now have access to better French bread than the French. Le Pain Croustillant, which had sales of £47.6m last year, produces nearly 2,000 tonnes of bread a week - many times more than the remaining "authentic bakeries" in France. The baguette plant alone turns out four tonnes of bread an hour.

This is industrial baking on a grand scale. So how is it different from today's French methods? Mr Vanbergen

Exchange set to announce dealing reforms

By Norma Cohen in London

Rule changes for share dealing on the London Stock Exchange's controversial electronic order book dealing system are expected to fall short of some of the more radical changes some market participants have called for.

The changes are expected to be announced shortly by the exchange.

It is believed to have rejected consideration of measures that would force certain bargains through the electronic system, known as Sets, as a means of improving liquidity.

The changes follow a consultation period intended to address the relatively low usage of the new Sets system. The new rules have been agreed by several internal stock exchange committees and are awaiting final approval later this week.

Only 32 per cent of trades in FTSE 100 companies, measured by value, are traded via the Sets system. The rest are dealt through market makers who may quote prices for shares if they wish but are no longer required to quote firm two-way prices to all callers at any time.

Among the expected changes is the alignment of the close of the Sets system trading day with that of the London International Financial Futures Exchange, which closes at 4.10pm.

Participants have complained of volatile price swings after the futures markets close each day.

Another possible change would delay the opening of trading on Sets to at least 8am from 8.30am. Institutional investors are typically absent from the market before 8am, making it easier for traders to manipulate the market by posting unrealistic share prices on screen.

N Ireland business gears up for peace

By John Murray Brown

"Forget the politics, just make the trains run on time," said novelist Colm Toibin yesterday.

The sentiment will be shared by many people north and south of the Irish border as they contemplate the economic implications of Friday's momentous referendum result, in which 71 per cent of Northern Ireland's voters backed the Good Friday peace agreement and so gave the green light to the establishment of an elected power-sharing assembly and new cross-border institutions for co-operation with the Irish Republic.

With the proposed assembly yet to be set up, it will be some time before Northern Ireland politicians will be able to test their skills as managers of the economy.

The proposed cross border bodies - which will foster co-operation in a range of economic areas between the Northern Ireland and the Irish Republic - will present an even greater test of the spirit of reconciliation.

Chris Gibson, chairman of the Northern Ireland Confederation of British Industry, said the business community "was committed to playing its part in building a more prosperous future together". He said the CBI did not underestimate the task.

In spite of high profile

visits by Richard Branson, head of the Virgin group, and support for the Yes camp from Saatchi and Saatchi, the advertising agency, business has not been untouched by the painful choices of the past few weeks.

Although the CBI and the Institute of Directors were firmly behind the deal, the Northern Ireland Chamber of Commerce - representing retailers, small traders and artisans - refrained from endorsing it.

The immediate impact of last week's decision will be seen in overseas investment and tourism, the sector most susceptible to swings in public confidence.

Economists expect a lift in

investment prospects. William Daly, the US commerce secretary, is due in Northern Ireland in the next couple of weeks with what is expected to be a high powered delegation of US businesspeople.

The economy has been doing well over the past few years, and exports and manufacturing output have outpaced the UK as a whole.

Alan Gillespie, chairman of the Industrial Development Board, Northern Ireland's overseas investment authority, said it was essential for the whole community to work together if the province's economy was to improve.

Tourism may have to wait a little longer to see the benefits of any political deal.

The marching season, in which parades are undertaken by various sectarian groups - a turn-off for all but the most gun-ho of tourists - has still to reach its peak.

The longer term outlook for the economy looks more precarious. Earlier this month, Gordon Brown, the chancellor of the exchequer, unveiled a £315m package to underpin the peace process. However, the government appears to be signalling a shift away from conventional methods of supporting industry, with more emphasis on training and improving the province's infrastructure.

25 years of air conditioning in Europe, for a real sense of wellbeing

25 years of success was not created alone.



Working with air may seem abstract to some, but at Daikin Europe it's a very real challenge. And today we celebrate the moment, 25 years ago, when the number one Japanese air conditioning company chose Central as its springboard for Europe. Ever since that day, our engineers have been working to improve the air that surrounds us, and provide comfort and wellbeing for the whole of Europe... from Helsinki to Barcelona, from Edinburgh to Athens. And all with the strictest respect for the environment to which we belong, making Daikin Europe one of the first air conditioning companies to receive the international ISO14001 certification for the environment in 1998. So if today we pause and light some candles to celebrate 25 years of success, and a turnover which passed Br 10 billion in fiscal 1997, it is only to thank those who have helped us achieve our goal. Because, it's true, success is never created alone.

25 years
creating a better future in Europe

DAIKIN EUROPE NV

Zandvoortseweg 205, 4-6400 Oss, The Netherlands

FUTURES OPTIONS & FOREX
PRIVATE CLIENTS WELCOME

BERKELEY FUTURES LIMITED
30 DOVER STREET, LONDON W1X 3DB
TEL: 0171 522 3333 FAX: 0171 495 0022
http://www.berkeleyfx.co.uk

http://www.unioncal.co.uk
FX, FUTURES & OPTIONS 24 HOURS
0171 522 3333

Fast Fills. Low Rates. Quality Service.
LIND WALDOCK & COMPANY
0800 262 472

mini REUTERS
FUTURES PAGES
0800 83 83 83

FUTURES - TAX FREE
IG INDEX FINANCIAL
0171 896 0011

OFFSHORE COMPANIES
Specialist in 100% foreign owned companies and 100% foreign owned subsidiaries for sale or lease.
LONDON: RICHARD J. COOK, 020 7461 1111
NEW YORK: RICHARD J. COOK, 212 691 1111
HONG KONG: RICHARD J. COOK, 2862 1111

The FT GUIDE TO WORLD CURRENCIES, published in Monday's newspaper and covering over 200 currencies, is now available by dialling the following number from the handset of your fax machine, 0891 437 001. Calls are charged at 50p/min at all times. For more information or assistance please phone 0171-873 4378. (Cityline help desk)

FX - Money Markets - Swaps
Bonds - Market Comment - News
www.moneyandbonds.com
One month free trial for new users

STANDARD & POOR'S
ComStock on the Net
Wide range of international stocks, futures, options
Bonds, swaps, clearing and technical analysis
Contact: Richard J. Cook, 020 7461 1111 or e-mail: richard.j.cook@standardandpoors.com

MarkeTrack98
The World's Most Powerful Fixed-Line Quote System
Now Runs Just As Fast Over The Internet
www.marke-track.com 0171-259 2270 ukcs@marke-track.com

Market-Eye
Real-time equities, futures, options and news from only £34 per month
www.market-eye.co.uk 0800 321 321

GNI
All Futures, Options & Margined Forex
Contact: Terry Townsend
0800 171 371 399
Email: gni@gnifutures.com
Web Site: http://www.gni.co.uk

OFFSHORE COMPANIES BY LAWYERS
Leading international tax planning firm, offers full services.
London: Helen Harper, LL.B. (HONS) Tel: +44 171 352 2274
Belfast: Peter Murphy, LL.B. (HONS) Tel: +353 91 262 1388
E-mail: offshores@gnilaw.com, offshores@gnilaw.com
100-100 SYDNEY ST, LONDON WC2A 3GL, UK

ED & F MAN DIRECT
A COMMERCIAL PRESENCE ON GLOBAL FUTURES MARKETS NOW AVAILABLE TO PRIVATE INVESTORS.
0500 565717

REAL-TIME ELECTRONIC FOREX DEALING
FREE price feed, charts and news
www.forex-cmc.co.uk

Argus LatAm Energy
Twice-monthly intelligence brief on oil and gas markets in Latin America
Free info: 0171 559 726 E-mail: arguslatam@argus.com

Petroleum Argus
Free info: 0171 559 726 E-mail: arguslatam@argus.com

WANT TO KNOW A SECRET?
The L.D.S./M.L. Seminar will show you how the markets REALLY work. The amazing trading techniques of the legendary W.D. Gann can increase your profits and contain your losses. How? That's the secret.
BOOK YOUR FREE PLACE PHONE 0161 474 0080

TRADE FUTURES ELECTRONICALLY
Linnco
FOR FREE DEMO CALL
+44 (0) 171 882 3311

TENFORE
Real time global coverage of Stocks, Currencies, Bonds, Commodities, Futures & Options, Research & Commentary and News
For more info and FREE demo disc call:
+44 (0) 171 405 1004

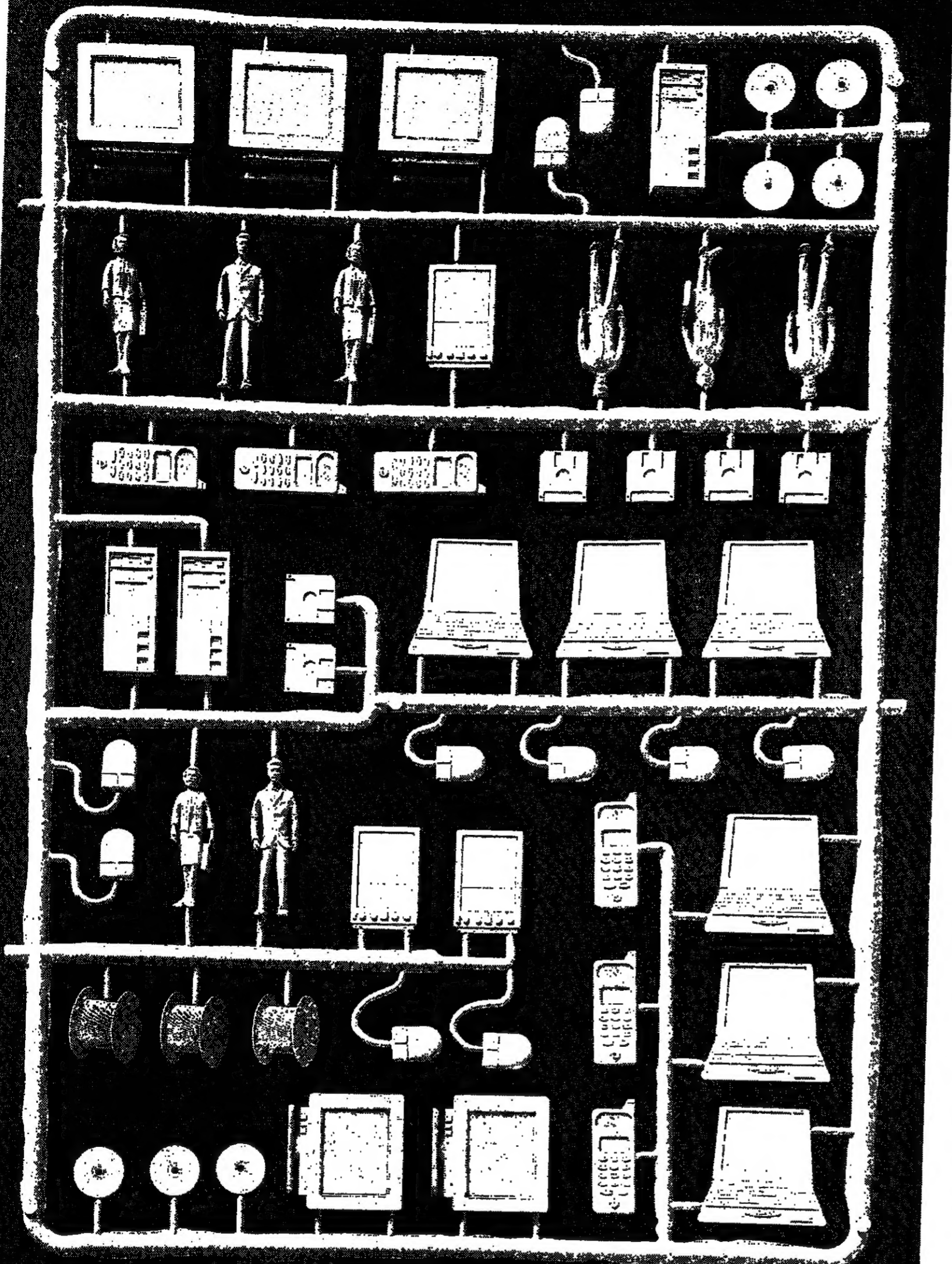
ED & F MAN DIRECT
1200+ FUTURE CONTRACTS
0500 565717

FutureSource
Real Time Global Market Coverage
Commodity, Stock, Bond, Currency, Futures & Options
24 Hour continuous chart corrections
24 Hour continuous chart corrections
Call for the full demo disc and see the data feed that's offered by the trading community.
+44 (0) 171 867 8867
or E-mail: info@futuresource.com

From Data Broadcasting Corporation
Real-time data on your PC
equities • futures • options • derivatives • bonds • commodities
ALL AMERICANS • FOREX • EUROPEANS • NEWS • CHARTS
IN YOUR COUNTRY NOW
70 Countries across Europe, the Middle East and Africa - from Ireland to Moscow, from Finland to Yemen
DBC International
www.dbceuro.com Tel: +44 171 793 3100

APR 20 1998

Exchange
set to
announce
dealing
reforms



1200 desktops.

700 laptops.

The London office.

**Maude from
Accounting.**

212 printers.

The internet.

Edwin from R&D.

The Hong Kong office.

Audrey from Finance.

The intranet.

The New York office.

88 servers.

Billy from Sales.

Ready?

Put them together.

Assembling an IT network for a worldwide company is a tremendous endeavour. Servicing it can be an even more colossal task. Precisely why you should call Wang Global, a networked services and solutions provider, with an annual turnover of over \$3 billion. We will integrate your entire company's infrastructure; desktops, software, peripherals, into one remarkably seamless network. Then manage and upgrade that network as your company grows. And grow it will. 0800 731 0145, quote ref 1101. <http://www.wang.com>

WANG
GLOBAL
Networked Technology Services



GENE SEQUENCING

Rival strategies race to unravel genetic code

Clive Cookson reports on the academic and commercial approaches competing in the Human Genome Project

A new spirit of competition between academic and commercial researchers is invigorating the Human Genome Project, the international effort to unravel our entire genetic code.

As a result of two funding commitments made this month - about \$300m each from Perkin-Elmer, the US scientific instrument company, and the Wellcome Trust, the UK medical charity - the race to spell out all 3bn chemical letters in the genetic "book of life" could be over some time between 2002 and 2005.

The two organisations have very different approaches.

Wellcome, the world's wealthiest charity, is doubling its existing investment in non-commercial gene sequencing, with a pledge that its Sanger Centre near Cambridge will decipher one-third of the genome instead of the sixth previously announced. But it sees no need

for a fundamental change in scientific strategy.

In contrast, Perkin-Elmer is setting up a new genomics company, headed by Craig Venter, one of the most charismatic and controversial figures in genetic research. It will use an alternative strategy, called "whole genome shotgun", combined with a new generation of ultra-fast DNA analysis machines from Perkin-Elmer, "to substantially complete the sequencing of the human genome in three years".

Dr Venter has used this strategy to sequence bacterial genomes at The Institute for Genomic Research (TIGR) near Washington DC. Now he is ready to apply it to the human genome, which is about 1,000 times larger. The DNA will be broken into thousands of random fragments, whose sequence can be determined by the new Perkin-Elmer 3700 analysers; computers will then work out which bits overlap

and stick the whole genome back together again.

Other researchers doubt whether the strategy will work well, because the human genome is not only so big but also interspersed with regions in which particular runs of chemical letters are repeated many times. These "repeat sequences" make it hard to reassemble the shattered DNA accurately.

Michael Morgan, who runs Wellcome's genomics programme, predicts that Dr Venter's venture will give a much less accurate reading than the more gradual, painstaking approach taken by the Sanger Centre and the universities supported by the US government's human genome programme. "It will inevitably have gaps and will leave a lot of expensive cleaning up work to others," Dr Morgan says. "Our sequencing is carried out to the highest standards of accuracy so that it will be a

gold standard for the future."

Dr Venter retorts that his critics have not appreciated his successful track record at TIGR nor the scope of his new venture with Perkin-Elmer.

"We'll have 330 of the new 3700 machines and we'll be able to sequence 100m base-pairs [the chemical letters of DNA] per day - more than the world's combined sequencing capacity today," Dr Venter says. "We'll be sequencing the whole genome not once but 10 times. It will be at least as accurate as anything done anywhere else."

The differences between the two sequencing efforts extends beyond their scientific approaches to their patenting policy and the way they make data available.

The academic project, which is funded mainly by the US National Institutes of Health, US Department of Energy and the Wellcome Trust, has made a

point of putting all genetic information straight into public databases; DNA sequences are released on the internet as they are discovered. The trust is fiercely opposed to the patenting of genes on the basis of their DNA sequence alone.

The new Perkin-Elmer venture will also make its data publicly available. Sequences will be released quarterly rather than instantly - a delay that arouses suspicion in the Wellcome camp, though Dr Venter says it is for logistic reasons "to make sure that everything we put out is accurate". The venture also plans to patent between 100 and 300 of the genes it discovers. Dr Venter emphasises that the applications will be based not only on DNA sequences but also on their function and their specific application to human health.

He believes thousands of the most important genes remain to be discovered. Scientists estimate

that there are about 80,000 human genes. Although partial sequences are known for most of these, public databases contain only 5,000 or so genes as full-length sequences.

There is nothing new about genomics in the private sector. Human Genome Sciences led the way in partnership with TIGR in the early 1990s and now has 27 issued US patents on human full-length genes, with many more applications pending.

The novelty is a private company declaring its intention to sequence the whole genome, including the vast regions of "junk DNA" with no known function, rather than focusing on the 5-10 per cent that represents genes and the control regions that switch them on and off.

What is Perkin-Elmer likely to gain from its investment? Not much, say some of its potential competitors. William Haseltine, chief executive of Human Genome Sciences, portrays the gesture as an altruistic "turn-of-

the-century gift to science". Dr Venter disagrees. Although the gene patents will bring in revenues, he expects his company's income to come mainly from selling information. "The business is not based on exploiting genes and it is not a biotechnology or pharmaceutical company," he says. "It is a service company, based on creating the best human genome database and then adding value to it."

Remember that completing the Human Genome Project - decoding the full DNA of a typical man and woman - is only the first stage in understanding how genes work together with environmental factors to determine sickness and health. The motivation of Dr Venter and Perkin-Elmer may not be so much to win the race to sequence the human genome as to build a strong position for the next stage, when researchers will focus on individual genetic variations and the factors that switch genes on and off.

HOW THE MACHINES WORK

Sequence of high-speed events

DNA, the spiral molecule that stores genetic information in every living cell, is a double-stranded sequence of millions of chemical units known as nucleotides or base-pairs.

There are four nucleotides: the four letters of the genetic code, A, C, G and T. The heroic task of the Human Genome Project is to discover the order of 3bn nucleotides that provides a blueprint for a typical man or woman.

Sequencing machines available today use automated versions of a procedure invented 30 years ago in Cambridge by Fred Sanger.

It involves chopping DNA into small strands about 1,000 nucleotides long and then copying each strand many times in the presence of various chemicals.

This gives a mixture of DNA fragments of varying lengths, each finishing with one of four different coloured fluorescent dye mole-

cules corresponding to the four nucleotides. The order of colours coming off - corresponding to the sequence of nucleotides in the original piece of DNA - is scanned by laser and displayed on computer screen.

Two leading contenders in the high-speed DNA-sequencing market are Perkin-Elmer's Applied Biosystems division and an alliance between Molecular Dynamics and Amersham Pharmacia Biotech.

They are engaged in a complex legal battle over patents in the US. Perkin-Elmer's new 3700 analyser will be tested in Craig Venter's proposed sequencing laboratory later this year but will not be available commercially until early 1999, at a price of \$300,000 (£180,000) each.

The Molecular Dynamics/Amersham Pharmacia alliance claims that its MegaBac systems, which are already on the market, have a technological lead over existing Perkin-Elmer products.



Fred Sanger: the inventor of the DNA sequencing process

FORENSIC DNA TESTING

'Proof' under suspicion

In little more than a decade, DNA profiling has emerged as one of the greatest crime-fighting techniques.

The police's success at solving otherwise intractable crimes has been transformed by the ability to extract genetic profiles from a mere drop of blood or strand of hair.

In future DNA testing is likely to develop rapidly as the underlying science moves forward. It has already come a long way since 1984, when researchers at Leicester University developed a technique for extracting DNA from blood or semen and cutting it up using enzymes. The DNA fragments are then separated in an electric field and made visible with radioactive probes on X-ray film.

Scientists are now close to another breakthrough: they will soon be able to identify DNA from a single cell, which could be obtained from such minute pieces of evidence as the saliva on the back of a stamp, a speck of dandruff or a single sperm.

Work is being undertaken by scientists at Leeds University together with the UK's Forensic Science Service. They are developing a technique that allows them to amplify single strands of DNA, until they can identify an individual from the position of six "markers" in the genetic code.

Forensic scientists are also

moving towards creating a detailed "photo" of a suspect from DNA.

A strand of hair or a drop of blood left at the scene of a crime would allow them to establish the culprit's eye colour, hair colour, nose size and, ultimately, create a facial reconstruction.

But with the growing power and scope of DNA testing, the way it is used in criminal cases is coming under increasing scrutiny. Nature, the international science journal, recently published an article under the headline: "British forensic science in the dock." It argued that unregulated forensic science practices have led to wrongful convictions.

This type of criticism is not confined to the UK. Meanwhile, the close relationship between forensic scientists and the law enforcement agencies has been attacked by William Thompson, a professor at the department of criminology, law and society at the University of California at Irvine.

Instead of testing samples "blind", forensic scientists know the source of the DNA, which may influence their interpretation, he says. Criticisms have also been directed at the accuracy of some newer techniques, and in particular, those for analysing "mitochondrial" DNA. These give police the ability

to extract information from bone, hair and samples that are too small, old or degraded for normal DNA analysis, which uses genetic material from the cell's nucleus.

The analysis of mitochondrial DNA - which comes from outside the nucleus - carries extra risks that have not yet been fully quantified, says Bill Shields, biologist at the State University of New York.

The problem concerns the assumption that if a sample matches a suspect's DNA then it must come from that suspect. This may not be true, because an individual's mitochondrial DNA can vary from place to place as a result of mutations.

Another anxiety about emphasis on DNA tests in the criminal justice system concerns the way evidence is presented in court.

Jonathan Koehler of the University of Texas at Austin cites a study in which one jury was told that the probability that an individual's DNA matched the sample by coincidence was 0.1 per cent. Seventy-five per cent of the jurors thought that the accused was likely to be guilty. When another jury was told of the same probability, couched in terms of "one in a thousand", fewer than half thought he was guilty.

Vanessa Houlder

SKW
TROSTBERG

DIALOG

WITH INVESTORS

"We are an attractive partner for life sciences companies."

INTERVIEW WITH LUTZ HÄRTEL, MEMBER OF THE BOARD OF MANAGEMENT

Mr. Härtel, is the chemical industry booming? The chemical industry is a growth industry, and this also applies to our Chemical Division. Internally we are enhancing this growth with sizeable investments, externally through acquisitions and strategic alliances.

Many of the products of SKW's Chemical Division are fairly young. How do you explain that? We are highly specialized and rely very much on innovation. In our Special and Fine Chemicals business unit, 25% of sales and 50% of revenues are generated by products which are less than four years old.



Lutz Härtel, member of the board of management responsible for the Chemical Division

Who are your major clients for these tailored products? Among our clients are such well-known life sciences companies as Novartis, AgriEvo, Bayer, Zeneca and DuPont. They work in areas such as integrated plant protection and pharmaceuticals, in other words in future-oriented areas that secure progress and growth.

Other products of ours, like the ones for hot metal desulfurization, are in great demand by steel mills worldwide. Presently, we benefit from the continuing strength of the steel and foundry sector in the U.S. and Europe where we are the market leader.

In which markets does the Chemical Division have the strongest position? In Special Chemicals, we are the global market leader with cyanamide, a nitrogen organic substance produced in our Trostberg plant in Bavaria. Cyanamide products are sold worldwide and are largely non-cyclical, generating a sizeable portion of our sales. We are also the world's leading producer of magnesium powder which - like calcium carbide - is used for desulfurization. SKW also has excellent market positions in aromatic nitriles and cyanuric chloride.

What are your ambitions in agro chemicals? The importance of agro chemicals is growing. In Pflesteritz, in eastern Germany, we operate one of Europe's largest and most modern urea refining plants. In addition, we produce a very high quality and environmentally-friendly calcium cyanamide fertilizer which is even used by organic farmers who reject normal chemical fertilizers. Due to its excellent qualities, this multi-purpose fertilizer is applied primarily for special cultures in Germany and abroad.

What are you focusing on in metallurgical chemicals? In this field priority is given to internationalization, particularly to the expansion of our Asian activities. We recently entered into new joint ventures with steel companies in India and Tianjin (China).

How has the Asian crisis affected SKW's Chemical Division? With sales of DM 60-70 million in the Far East, the crisis in Asia has not had a very strong impact on us. Our main markets there are Japan and China. In some cases, local suppliers have gained a price advantage as a result of currency devaluations. On the other hand, raw material prices are declining, and there may be some good opportunities for acquisitions.

Do you have particular plans for acquisitions? SKW would like to strengthen its partnership with life sciences companies through acquisitions. Possible partners are located in western Europe and the U.S. In the course of restructuring, some companies may be selling parts of their businesses which may well fit with us. We already have a number of candidates.

SKW Trostberg AG, Corporate Communications
P.O. Box 1242, D-83303 Trostberg, Germany
Telephone (+49) 86 21 76-24 60, Telefax (+49) 86 21 76-20 20
Internet: <http://www.skw.de>
e-mail: skw_group_pr@compuserve.com
Member of the VIAG Group

SKW
TROSTBERG

APR 20 1998

MANAGEMENT INVESTING IN CHINA

Remove the iron rice bowl

Foreign investors may never be able to buy Chinese state assets as cheaply again. But they will suffer a culture shock, warns James Kynge

What would you get for your money if, as a foreign investor, you decided to buy a former state enterprise in Shenyang, the centre of China's north-eastern industrial rustbelt?

The question is more than academic. Such businesses have, in the past, been largely off-limits to foreigners. But China's faltering economy has forced the authorities to search for investors wherever they can find them.

This month Mu Suixin, Shenyang's mayor, toured Europe to find foreign investors for 18 large state companies, with a total workforce of 309,436.

Other cities in the north-east are also planning mass sales; Harbin, near the Russian border, is to put about 1,000 medium and small enterprises under the auctioneer's hammer in June.

As to the question of what a foreign investor could expect, the answer is likely to be an appalling managed business. But this is the main attraction, according to Jiang Enhong, a leading corporate turnaround expert in the region, who has himself taken on such companies.

Rebellious workers, deception and years of inertia bred from central planning define the opportunities for any new investor - local or foreign - in China's crumbling state-owned sector, he believes. "I have straightened out the management of companies within 44 days, and set them on the way to profitability," he says. "This just shows how bad their management was."

The work is arduous, but foreigners may never get the chance to buy into state assets as cheaply again.

Foreign investors can also benefit from preferential terms, such as municipal tax concessions, which are not on offer to locals. Joint venture and foreign-invested companies also have advantages in raising local bank finance - which private companies in China find difficult to secure. "If only I could get banks to lend to me, I would not just be a tiger, but a tiger with wings," says Mr Jiang.

His main problem has been in rationalising the many managers

when he was fired, he adds.

A measure of shock therapy was necessary to teach workers that when their factory passed from state to private hands, their "iron rice bowl" of socialist-era benefits was taken away. When he took over the Xincheng Pharmaceutical factory, workers were supposed to arrive at 8am but most came at 10am and many would return home for the day before lunch.

At the opening ceremony for the factory, one worker sat down on a seat reserved for dignitaries. When he was told to move, he smashed the chair. Mr Jiang told him he would be sacked if he did

When Mr Jiang bought the Shenyang Antibiotics company, which had not made a profit nor paid any tax since 1979, there was one manager to every four workers

who clog most state-owned enterprises. When he bought the Shenyang Antibiotics company, which had not made a profit nor paid any tax since 1979, there was one manager to every four workers.

Some managers had been awarded offices out of favouritism but their roles had not been clearly defined.

Mr Jiang has removed two-thirds of the managers in all three state companies he has bought, and defined clearly the task of those remaining. Anyone who failed to perform their

not donate a new chair by the following Monday. "He brought the chair, but we fired him anyway," says Mr Jiang.

Laying off workers in China has been fraught with ideological and social impediments. It is not as simple as Mr Jiang makes it sound, but a Communist party congress in September ushered in a phase of faster free market reform. Redundancies are increasingly seen as unavoidable.

The September congress, and the subsequent National People's Congress in March, also helped to

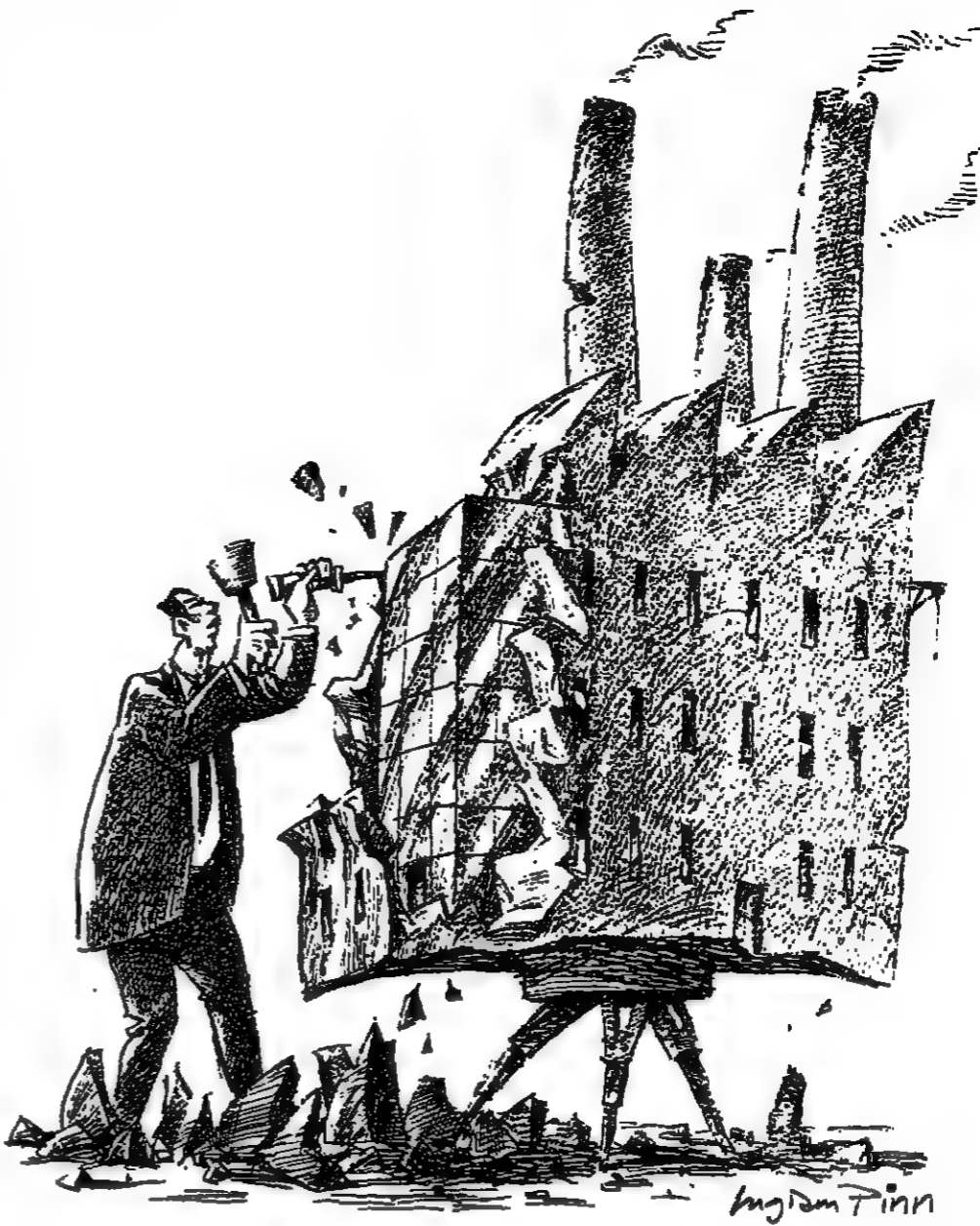
overturn an ambiguous official stance on private ownership by permitting "diverse forms of public ownership". In Shenyang, this has been taken as a cue for the rapid and comprehensive sale of state assets. Thousands of state enterprises are to be sold this year and next.

Gai Ruilin, the deputy mayor, says that a severance allowance of, say, 10,000mb (\$1,522) could be paid per worker by the new owners of state companies, and that the cost of providing for those who are made redundant may be set against the purchase price of the factory.

Morale among the remaining workers is a complicated issue. But Mr Jiang believes that some of the control mechanisms found in state enterprises, such as the Communist party cell and the trade unions, should be retained. The Communist party has been invaluable in resolving industrial disputes because it carries the authority of China's most powerful body.

One worker had lost his legs when he was run over by a train. He was causing trouble outside the factory, inciting others to militancy. With the party cell's intervention, a settlement was found. Mr Jiang's company bought him a mobile telephone and a staff he now rents out the phone for calls and sells wine by the factory gate.

But Mr Jiang is conscious that the heavy hand with which he has put his corporate empire in order should at some point give way to a lighter touch. Eventually his three factories are to be "democratised", with each worker owning shares.



MARKETING BRAND MANAGEMENT

An instant party with your Polaroid camera

There was a time when there was nothing to beat a Polaroid camera for instant gratification. But in a world of disposable cameras, one-hour film processing and the camcorder, Polaroid's European sales are struggling, although US sales remain healthy.

Bartle Bogle Hegarty, the company's advertising agency in Europe, is trying to tackle the problem by repositioning the

brand as a "social lubricant".

According to Martin Smith, BBH's deputy chairman: "Polaroid operates in a different market from 35mm cameras and advanced photography systems. Rather than recording the event, it adds to it and helps it become more informal. It's less about memories. It's more like alcohol and karaoke."

As well as the advertising, a new range of products will be

introduced during the next three years, says Brian Poggi, vice-president of Polaroid Europe. There are plans for a single-use, instant camera and a smaller model, producing very small pictures, aimed at teenage girls.

"It was essential for us to re-establish the brand before launching the new products. Since the launch of the campaign in continental Europe in 1995, we have seen a rise in sales, brand

awareness and relevance," he says.

There will be a move, too, away from the traditional camera outlets such as specialist shops and department stores.

With the emphasis on buying a Polaroid to enhance a social occasion, the company is focusing on finding sales points that are open after 5pm, such as video hire shops or liquor stores. Even closer to the idea of making the

camera available where young people go out, there have also been promotions at night clubs.

Mr Poggi says that one of the new products will be tailored to night clubs, though he does not say how. He envisages that the single-use Polaroids may be on sale at airports and other points of departure.

Alison Smith



Demonstrates One of Polaroid's new ads

CONFERENCES & EXHIBITIONS

Conferences & Exhibitions

JUNE 3-8

Facility Documentation and Legal Issues

Reviews the legal principles and the practical issues associated with the negotiation and application of loan, guarantee & security documentation. Legal principles & documents • Loan documents & facility letter • Guarantees & comfort letters • Security viability & enforcement • Dealing with defaults • Litigation and insolvency. Contact: BPP Training and Consultancy Tel: 0171 628 8444 Fax: 0171 628 7818 Email: bpttraining@compuserve.com

JUNE 6

Invest 98

The essential private investor conference. Hosted by Barclays Stockbrokers in association with Sunday Business. Sponsored by London Stock Exchange, BT, Hemmington Scott. Stock market events from world leading investment experts including: Mary Butler of Buffery & Lane • Alexander Eides, world class investment strategist • Terry Smith, renowned company analyst. Tickets: £70.00 Tel: 01202 244 124 Fax: 01202 244 034

LONDON

JUNE 9-11

TFL TRAINING

Auditing the Back Office To provide delegates with an understanding of the role of the support functions and their criticality in the business cycle. Covering: Identifying the Settlement Risk, Link to these the necessary controls, back, Derivative & Preventive. 245.00 • VAT 1 Day Tel: 0171 600 2123 Fax: 0171 600 3751 Email: sales@tfl-training.com

LONDON

JUNE 9-11

TFL TRAINING

Auditing the Back Office To provide delegates with an understanding of the role of the support functions and their criticality in the business cycle. Covering: Identifying the Settlement Risk, Link to these the necessary controls, back, Derivative & Preventive. 245.00 • VAT 1 Day Tel: 0171 600 2123 Fax: 0171 600 3751 Email: sales@tfl-training.com

LONDON

JUNE 15-16

Management Techniques

For recently appointed managers/owners and in a management position. Covers core management skills necessary to increase manager effectiveness in today's competitive environment. The role of the manager • Effective communication techniques • Setting objectives & monitoring performance • Managing time • Motivating staff • Developing an action plan. Contact: BPP Training and Consultancy Tel: 0171 628 8444 Fax: 0171 628 7818 Email: bpttraining@compuserve.com

LONDON

JUNE 18

How to Obtain International Investment Capital for Restructuring Ukraine Enterprises

Practical methods to comply with international accounting issues and re-value enterprises. Sponsored by International Stock Exchange and C&K Capital Corporation. \$250.00 USD Tel: USA 949-471-9211

LONDON

JUNE 17

International Grains Council World Grains Conference '98

"Open grain markets... going for growth" Speakers will focus on opportunities for expanding trade in a price-conscious market increasingly driven by end-user needs and by the growing importance of grain-based products. Contact: International Grains Council Tel: +44 171 513 1122 Fax: +44 171 513 0630

LONDON

JUNE 17-18

TFL TRAINING

Auditing the Back Office To provide delegates with an understanding of the role of the support functions and their criticality in the business cycle. Covering: Identifying the Settlement Risk, Link to these the necessary controls, back, Derivative & Preventive. 245.00 • VAT 1 Day Tel: 0171 600 2123 Fax: 0171 600 3751 Email: sales@tfl-training.com

LONDON

JUNE 17-18

TFL TRAINING

Auditing the Back Office To provide delegates with an understanding of the role of the support functions and their criticality in the business cycle. Covering: Identifying the Settlement Risk, Link to these the necessary controls, back, Derivative & Preventive. 245.00 • VAT 1 Day Tel: 0171 600 2123 Fax: 0171 600 3751 Email: sales@tfl-training.com

LONDON

JUNE 17-18

TFL TRAINING

Auditing the Back Office To provide delegates with an understanding of the role of the support functions and their criticality in the business cycle. Covering: Identifying the Settlement Risk, Link to these the necessary controls, back, Derivative & Preventive. 245.00 • VAT 1 Day Tel: 0171 600 2123 Fax: 0171 600 3751 Email: sales@tfl-training.com

LONDON

JUNE 17-18

TFL TRAINING

Auditing the Back Office To provide delegates with an understanding of the role of the support functions and their criticality in the business cycle. Covering: Identifying the Settlement Risk, Link to these the necessary controls, back, Derivative & Preventive. 245.00 • VAT 1 Day Tel: 0171 600 2123 Fax: 0171 600 3751 Email: sales@tfl-training.com

LONDON

JUNE 17-18

TFL TRAINING

Auditing the Back Office To provide delegates with an understanding of the role of the support functions and their criticality in the business cycle. Covering: Identifying the Settlement Risk, Link to these the necessary controls, back, Derivative & Preventive. 245.00 • VAT 1 Day Tel: 0171 600 2123 Fax: 0171 600 3751 Email: sales@tfl-training.com

LONDON

JUNE 17-18

TFL TRAINING

Auditing the Back Office To provide delegates with an understanding of the role of the support functions and their criticality in the business cycle. Covering: Identifying the Settlement Risk, Link to these the necessary controls, back, Derivative & Preventive. 245.00 • VAT 1 Day Tel: 0171 600 2123 Fax: 0171 600 3751 Email: sales@tfl-training.com

LONDON

JUNE 17-18

TFL TRAINING

Auditing the Back Office To provide delegates with an understanding of the role of the support functions and their criticality in the business cycle. Covering: Identifying the Settlement Risk, Link to these the necessary controls, back, Derivative & Preventive. 245.00 • VAT 1 Day Tel: 0171 600 2123 Fax: 0171 600 3751 Email: sales@tfl-training.com

LONDON

JUNE 17-18

TFL TRAINING

Auditing the Back Office To provide delegates with an understanding of the role of the support functions and their criticality in the business cycle. Covering: Identifying the Settlement Risk, Link to these the necessary controls, back, Derivative & Preventive. 245.00 • VAT 1 Day Tel: 0171 600 2123 Fax: 0171 600 3751 Email: sales@tfl-training.com

LONDON

JUNE 17-18

TFL TRAINING

Auditing the Back Office To provide delegates with an understanding of the role of the support functions and their criticality in the business cycle. Covering: Identifying the Settlement Risk, Link to these the necessary controls, back, Derivative & Preventive. 245.00 • VAT 1 Day Tel: 0171 600 2123 Fax: 0171 600 3751 Email: sales@tfl-training.com

LONDON

JUNE 17-18

TFL TRAINING

Auditing the Back Office To provide delegates with an understanding of the role of the support functions and their criticality in the business cycle. Covering: Identifying the Settlement Risk, Link to these the necessary controls, back, Derivative & Preventive. 245.00 • VAT 1 Day Tel: 0171 600 2123 Fax: 0171 600 3751 Email: sales@tfl-training.com

LONDON

JUNE 17-18

TFL TRAINING

Auditing the Back Office To provide delegates with an understanding of the role of the support functions and their criticality in the business cycle. Covering: Identifying the Settlement Risk, Link to these the necessary controls, back, Derivative & Preventive. 245.00 • VAT 1 Day Tel: 0171 600 2123 Fax: 0171 600 3751 Email: sales@tfl-training.com

LONDON

JUNE 17-18

TFL TRAINING

Auditing the Back Office To provide delegates with an understanding of the role of the support functions and their criticality in the business cycle. Covering: Identifying the Settlement Risk, Link to these the necessary controls, back, Derivative & Preventive. 245.00 • VAT 1 Day Tel: 0171 600 2123 Fax: 0171 600 3751 Email: sales@tfl-training.com

LONDON

JUNE 17-18

TFL TRAINING

Auditing the Back Office To provide delegates with an understanding of the role of the support functions and their criticality in the business cycle. Covering: Identifying the Settlement Risk, Link to these the necessary controls, back, Derivative & Preventive. 245.00 • VAT 1 Day Tel: 0171 600 2123 Fax: 0171 600 3751 Email: sales@tfl-training.com

LONDON

JUNE 17-18

TFL TRAINING

Auditing the Back Office To provide delegates with an understanding of the role of the support functions and their criticality in the business cycle. Covering: Identifying the Settlement Risk, Link to these the necessary controls, back, Derivative & Preventive. 245.00 • VAT 1 Day Tel: 0171 600 2123 Fax: 0171 600 3751 Email: sales@tfl-training.com

LONDON

JUNE 17-18

TFL TRAINING

Auditing the Back Office To provide delegates with an understanding of the role of the support functions and their criticality in the business cycle. Covering: Identifying the Settlement Risk, Link to these the necessary controls, back, Derivative & Preventive. 245.00 • VAT 1 Day Tel: 0171 600 2123 Fax: 0171 600 3751 Email: sales@tfl-training.com

LONDON

JUNE 17-18

TFL TRAINING

Auditing the Back Office To provide delegates with an understanding of the role of the support functions and their criticality in the business cycle. Covering: Identifying the Settlement Risk, Link to these the necessary controls, back, Derivative & Preventive. 245.00 • VAT 1 Day Tel: 0171 600 2123 Fax: 0171 600 3751 Email: sales@tfl-training.com

LONDON

JUNE 17-18

TFL TRAINING

Auditing the Back Office To provide delegates with an understanding of the role of the support functions and their criticality in the business cycle. Covering: Identifying the Settlement Risk, Link to these the necessary controls, back, Derivative & Preventive. 245.00 • VAT 1 Day Tel: 0171 600 2123 Fax: 0171 600 3751 Email: sales@tfl-training.com

LONDON

JUNE 17-18

TFL TRAINING

Auditing the Back Office To provide delegates with an understanding of the role of the support functions and their criticality in the business cycle. Covering: Identifying the Settlement Risk, Link to these the necessary controls, back, Derivative & Preventive. 245.00 • VAT 1 Day Tel: 0171 600 2123 Fax: 0171 600 3751 Email: sales@tfl-training.com

LONDON

JUNE 17-18

TFL TRAINING

Auditing the Back Office To provide delegates with an understanding of the role of the support functions and their criticality in the business cycle. Covering: Identifying the Settlement Risk, Link to these the necessary controls, back, Derivative & Preventive. 245.00 • VAT 1 Day Tel: 0171 600 2123 Fax: 0171 600 3751 Email: sales@tfl-training.com

LONDON

JUNE 17-18

TFL TRAINING

Auditing the Back Office To provide delegates with an understanding of the role of the support functions and their criticality in the business cycle. Covering: Identifying the Settlement Risk, Link to these the necessary controls, back, Derivative & Preventive. 245.00 • VAT 1 Day Tel: 0171 600 2123 Fax: 0171 600 3751 Email: sales@tfl-training.com

LONDON

JUNE 17-18

TFL TRAINING

Auditing the Back Office To provide delegates with an understanding of the role of the support functions and their criticality in the business cycle. Covering: Identifying the Settlement Risk, Link to these the necessary controls, back, Derivative & Preventive. 245.00 • VAT 1 Day Tel: 0171 600 2123 Fax: 0171 600 3751 Email: sales@tfl-training.com

LONDON

JUNE 17-18

TFL TRAINING

Auditing the Back Office To provide delegates with an understanding of the role of the support functions and their criticality in the business cycle. Covering: Identifying the Settlement Risk, Link to these the necessary controls, back, Derivative & Preventive. 245.00 • VAT 1 Day Tel: 0171 600 2123 Fax: 0171 600 3751 Email: sales@tfl-training.com

LONDON

JUNE 17-18

TFL TRAINING

Auditing the Back Office To provide delegates with an understanding of the role of the support functions and their criticality in the business cycle. Covering: Identifying the Settlement Risk, Link to these the necessary controls, back, Derivative & Preventive. 245.00 • VAT 1 Day Tel: 0171 600 2123 Fax: 0171 600 3751 Email: sales@tfl-training.com

LONDON

JUNE 17-18

TFL TRAINING

Auditing the Back Office To provide delegates with an understanding of the role of the support functions and their criticality in the business cycle. Covering: Identifying the Settlement Risk, Link to these the necessary controls, back, Derivative & Preventive. 245.00 • VAT 1 Day Tel: 0171 600 2123 Fax: 0171 600 3751 Email: sales@tfl-training.com

LONDON

JUNE 17-18

TFL TRAINING

Auditing the Back Office To provide delegates with an understanding of the role of the support functions and their criticality in the business cycle. Covering: Identifying the Settlement Risk, Link to these the necessary controls, back, Derivative & Preventive. 245.00 • VAT 1 Day Tel: 0171 600 2123 Fax: 0171 600 3751 Email: sales@tfl-training.com

LONDON

JUNE 17-18

TFL TRAINING

Auditing the Back Office To provide delegates with an understanding of the role of the support functions and their criticality in the business cycle. Covering: Identifying the Settlement Risk, Link to these the necessary controls, back, Derivative & Preventive. 245.00 • VAT 1 Day Tel: 0171 600 2123 Fax: 0171 600 3751 Email: sales@tfl-training.com

LONDON

JUNE 17-18

TFL TRAINING

Auditing the Back Office To provide delegates with an understanding of the role of the support functions and their criticality in the business cycle. Covering: Identifying the Settlement Risk, Link to these the necessary controls, back, Derivative & Preventive. 245.00 • VAT 1 Day Tel: 0171 600 2123 Fax: 0171 600 3751 Email: sales@tfl-training.com

LONDON

JUNE 17-18

TFL TRAINING

Auditing the Back Office To provide delegates with an understanding of the role of the support functions and their criticality in the business cycle. Covering: Identifying the Settlement Risk, Link to these the necessary controls, back, Derivative & Preventive. 245.00 • VAT 1 Day Tel: 0171 600 2123 Fax: 0171 600 3751 Email: sales@tfl-training.com

LONDON

JUNE 17-18

BUSINESS OPPORTUNITIES

READERS ARE RECOMMENDED TO SEEK APPROPRIATE PROFESSIONAL ADVICE BEFORE ENTERING INTO COMMITMENTS

A US based consultant firm with 25 years experience and excellent track record is looking for a strategic partner in the UK to apply its proven, documented and transferable approach to large scale organisational changes. Local candidates are training and consulting firms that are looking for ways to make their current proposals more effective in accomplishing the level of change that their clients need.

Reply in confidence to:
CORPORATE LIFE CYCLES INC, 24152 PARK ROSSO
CALABASAS, CA 91302 USA
E-MAIL: corp@life@protonet.com

BRANDED QUALITY WOOLLEN LADIES OUTERWEAR Co.
SEEK... (TRADITIONAL AND DIVERSE) HIGH FOOTFALL RETAIL LOCATIONS FOR A/W 98

PROFILE...

- Operating on concession x 80+ stores/outlets
- Aggressive retail price points/half or less than 10 stores, ensure our products are high volume/high margin purchases.
- Local media promotion/high brand recognition by target 45+ age group
- Consistent above average £ per sq ft return.

Contact: Astrakia (UK) Ltd, 1 Portugal Street East, Manchester M1 2WX

BUSINESS SERVICES

RESEARCH ANALYST

The incumbent to this position within the Equity Research Group of a leading financial institution will specialise in Eastern European and Russian equities, providing fundamental analysis of emerging markets in these areas. Applicants, educated to MBA standard, must be fluent in English, Russian and an Eastern European language and have minimum 8 years' relevant work experience in research, covering Eastern European and Russian emerging markets, preferably gained with a leading international financial house and have thorough familiarity with Russian culture. Computer programming and spreadsheet proficiency essential. Salary negotiable.

Please write in strict confidence enclosing full curriculum vitae, to Box A6150, Financial Times, One Southwark Bridge, London SE1 9HL.

Tired of sitting through business plans?

Invest at ground level - new and early stage businesses at the start of their quest for growth.

Reduced risk - VCR publishes screened investment opportunities.

Time saved - detailed, objective reporting enables your assessment.

Flexibility & choice - projects in all industries. Invest alone or with others. Gain a directorship.

20 yrs experience - VCR has helped raise £22m for 250+ companies.

For a free trial call Vicer Capital
Report on 01865 784411

PROJECT AND COMMERCIAL
Lending available to UK and international clients.
Anglo American Group Plc.
Tel: 01824 201 385
Fax: 01824 201 377

ESTATE AGENT
Equity investor sought (£100K), for expansion of established Herts agent: Amanda (01727) 874487

SECURITY PRODUCTS MARKET Buy in bulk with substantial funding opportunities in the security products market. Call 0113 230 9543 in strict confidence.

Motor Component Company For Sale
Niche market specialising in "High Profit Components".
Turnover £4 Million.
Profits in excess of \$500k pa.
Directors wishing to retire.
Well established excellent dealer network, future potential.
Further details, write to:
Box 8588, Financial Times,
One Southwark Bridge, London SE1 9HL.

Long Established Print Franchise in Central London
Daily net, large customer base, huge potential. T/O £1.1M. Net profit £66k. O/L £1.7M.
Further details:
0171 585 2429 (after 7.00 pm)

PRECISION ENG. SOUTH EAST
Extensive modern plant, excellent long established customer list, clean very profitable company.
Sales for 1998 circa £1.5 m.
Retirement sale.
Box 5512, Financial Times,
One Southwark Bridge, London SE1 9HL.

ESTABLISHED IN PRACTICE - A unique opportunity to own a very profitable and highly regarded IFM practice based in Scotland. Established for over 18 years the company specialises in high net worth clients offering a range of sophisticated services. Offers are invited in excess of £1 million details are available from David Munro on 0141 553 1285.

BUSINESSES FOR SALE

Kingdom Petfoods Limited (In Receivership)

Cupar, Fife

The above wholesaler, who distributes pet products throughout Scotland and the North of England, offers its business and assets for sale as a going concern.

- Versatile warehouse facilities
- Annual turnover c.£2million
- Experienced workforce
- Long established customer base.

For further details, contact the Joint Receiver,
Donald McGruther, Grant Thornton,
114 West George Street, Glasgow, G2 1QF.
Tel: 0141 332 7484.
Fax: 0141 333 0581.

Web Site: <http://www.grant-thornton.co.uk>

Grant Thornton

The UK member firm of Grant Thornton International

Authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business

WINE PRODUCING FACTORY IN HUNGARY

Products: wine, sparkling wine, vermouth, alcohol-free drinks.
Area: 3.5 ha; production buildings: over 7,000 sqm.
Full production: grape and apple processing; wine tanks for 4 million litres; bottling, fruit concentrate production; railway.
3.8 million USD
Fax: +36 78 312 958

COMPANY FOR SALE

Manufacturer of tubular steel products based in West Midlands. Blue chip customer base. Adjusted profits £100k.

Write to Box 8596, Financial Times, One Southwark Bridge, London SE1 9HL.

Venture Capitalists, Are You Interested In Purchasing Or Merging With A Successful Manufacturing Business?

DENTAL PRACTICE
South Coast.
Reply to Box 8597, Financial Times, One Southwark Bridge, London SE1 9HL.

V. SMALL SPECIALISED SYSTEMS HOUSE.
Box 8598, Financial Times, One Southwark Bridge, London SE1 9HL.

SEEN MERGERS/LL
By email to Box 8599, Financial Times, One Southwark Bridge, London SE1 9HL.

For Sale
Extraordinary Opportunity in the Growth Market of National Industrial Wholesaler.

Modern equipped factory for high quality products. Located in Spain (Pyrenees) - fully licensed - Product sales in Germany, France, Netherlands, Spain. For more information please contact by fax our directors in Germany 8649 (for Germany) - 04 - 07 10 10 20

FOR SALE - Modern Estate Agency
Business, South London. Prominent main road position, fully staffed, established, strong corporate image, good reputation, growing turnover. Owner selling due to other business commitments. Enquiries to: Box 8600, Financial Times, One Southwark Bridge, London SE1 9HL.

OFFICE EQUIPMENT

CANCELLED ORDER OF OFFICE FURNITURE
INCLUDES DESKS AND CHAIRS
ALL AT HALF PRICE TO CLEAR
Call to view: 0181 549 4848

BUSINESS SERVICES

Saturnalia Designs
The Complete Web Page Design Service
It has never been easier to advertise on the Internet. Call Saturnalia Designs now for straightforward advice on how the World Wide Web can make your business grow.
Tel: 01625 890246

Angers, Levin & Balis
Commercial/Criminal/Tax Litigation
Cost Effective Representation of Global Clients in U.S. Courts
U.S.A. offices in New York, New Jersey, Pennsylvania
908.306.1508 Fax: x1900
Email: A3@angerslevin.com

CHRISTIE & CO

SURVEYORS, VALUERS & AGENTS

TOWN
THREASDALE DEVELOPMENT, CARNOSTON
• Dwellings planning consent.
• 12 bedroom hotel. Restaurant, swimming pool, leisure complex.
• 30 detached houses. Approximately 8 acres of parkland.
• Alternative housing development potential.

OFFERS INVITED FREEHOLD
Edinburgh Office Ref 52/FT4308
0131 557 6666

WEST SUSSEX
Upon the Instructions of N O'Reilly & S Ryan Joint LHM Receivers of The Woodcock Centre, Bognor Regis, West Sussex. RML Nursing Home. REGISTERED FOR 35

• 27 singles and 4 double bedrooms, some with en suite facilities.
• Fee range £325-£380 per resident per week.
• £500,000 FREEHOLD
Winchester Office Ref 38/FT48320
01962 844455

NORTHAMPTON
On the Instructions of Northamptonshire County Council. RALPHSTON FORMER RESIDENTIAL CARE HOME. PREVIOUSLY REGISTERED FOR 27

• Vacant possession. Accommodation on ground and first floors, offices and staff facilities on second floor.
• 9 single, 9 double bedrooms, lift.
• Site area 0.74 acre, vehicle access to rear via service road.

OWNERS IN EXCESS OF £325,000 FREEHOLD
Milton Keynes Office Ref 74/FT8041MC
01908 206600

OFFICES AT: LONDON • BIRMINGHAM • BRISTOL • EDINBURGH
EXETER • GLASGOW • IPSWICH • LEEDS • MANCHESTER
MILTON KEYNES • NEWCASTLE • NOTTINGHAM • WINCHESTER

FOR SALE

Quality Leisure Company

Which has excellent "Theme Type" operation in SW England in main tourist area. Rated as one of the Top attractions in the area by Local Authority.

Set in excess of 100 acres with Full Planning Permission, with further approval for Holiday Lets or Park Residency. This Company is Family Run bringing in Profits in excess of 30% net.

Considerable further potential.
Would suit larger group with expansion plans etc.
Further details from Box 8601, Financial Times, One Southwark Bridge, London SE1 9HL.

TRANSPORT BUSINESS
FOR SALE
£1.4 million turnover.
Based in the Midlands.
Company: BRYCE DANIELS, MANSUR PIRANJAN & CO., THE OLD COACH, CHAMBERS, BALFOUR STREET, TAMWORTH B79 7JG

BUSINESS SALE REPORT
The No. 1 listing of medium to large companies for sale in the UK (7/10 £1m+). Now covering Europe. It is FREE to list your company for sale.
For subscription details: 0181-575 0200

PUBLIC NOTICE

MAXWELL COMMUNICATION CORPORATION PLC (IN ADMINISTRATION)
Schemes of Arrangement
Plan of Reorganisation

RM100,000,000 6% bonds of 1992/1993
£20 75,000,000 6% bonds of 1992/1993
£15 150,000,000 6% bonds of 1992/1993

NOTICE IS HEREBY GIVEN that, the assets distribution under the Scheme and the Plan will be paid on 3rd June 1998.

Holders of Distribution Certificates relating to the above bonds should present Distribution Coupon No 7 to their bank, or any branch of the relevant bank or to the relevant agent as set out below in order to receive the relevant distribution.

Failure to present the relevant Distribution Coupon for payment within one year from 3 June 1998 will result in the Distribution Coupon becoming void, with the result that the holder of the Distribution Coupon will themselves not be entitled to receive any distribution in respect thereof.

Agent Bank for the ECU and DM Bonds: **Superior Universal AG**, Am Tucherplatz 12, 50311 Mönchengladbach, Federal Republic of Germany (Registration: 25A 63)

Agent Bank for the Swiss Franc Bonds: **Credit Suisse (formerly Swiss Veldbank)**, PO Box 100, 8070 Zurich, Switzerland (Registration: 2 RA 1906.12)

Dated 26 May 1998
AM Steiner, SOA Phillips, S Steiner, SC Morris
Administrators of Maxwell Communication Corporation Plc

CONTRACTS & TENDERS
Joint stock company Eesti Raudtee (AS Eesti Raudtee) announces

A COMPETITION
for finding an investor for establishing a company for providing international railway passenger transportation services jointly with AS Eesti Raudtee

1. AS Eesti Raudtee, acting pursuant to the "Reorganisation and Privatisation Scheme and Guidelines for the State Enterprise "Eesti Raudtee" as approved by the ordinance no 442-k of the Government of the Republic of Estonia of June 11th, 1997 shall establish a company for providing international railway passenger transportation services (hereinafter: "the Company").

2. The Company shall be established by AS Eesti Raudtee together with an investor (hereinafter: "the investor") as chosen on the basis of the present competition (hereinafter: "the Competition").

3. The Company shall be established in accordance with Estonian law with the decisive majority (more than 50% of the votes determined by the shares) of votes belonging to the investor.

4. The Competition shall be implemented pursuant to the terms and conditions set forth by the Resolution of the general meeting of the shareholders, acting through the Minister of Transport and Communications, of AS Eesti Raudtee of April 13th, 1998 (hereinafter: "the Terms and Conditions of the Competition").

5. AS Eesti Raudtee shall, upon the formation of the Company, transfer to the Company an in-kind contribution, assets necessary for organising international passenger transport and conclude an agreement for the utilisation of necessary railway infrastructure.

6. Upon the establishment of the Company, AS Eesti Raudtee and the investor shall conclude a Shareholders' Agreement which shall, in compliance with the Terms and Conditions, set forth the duties of the shareholders vis a vis the company.

7. Information on the Terms and Conditions of the Competition and the terms and conditions for the establishment of the Company as well as the procedures therefore shall be delivered as a standardised package in Estonian and English languages to the address indicated by the applicant within three (3) days after the payment of 8,000 Estonian Kroons or 1,000 Deutsche Marks to the bank account of AS Eesti Raudtee no 1120238719 in the Eesti Hoiupank, code 650. The sum mentioned hereabove shall not be returned upon the closing of the Competition. Information on the Terms and Conditions of the Competition shall be made available upon a written request therefore to the address here below:

AS Eesti Raudtee
36 Pikk Street, suite 310
Tallinn EE0100, ESTONIA
phone: +372 61 58 508/telefax: +372 6 158 710

8. All natural persons or corporations existing under private law, except such persons in which more than one-third of the votes determined by the shares or stock are held, directly or indirectly, by the Republic of Estonia or any local government unit of Estonia, shall be deemed qualified to participate in the Competition.

9. The tender shall be presented pursuant to the Terms and Conditions of the Competition in a firmly sealed envelope marked as "Competition: International Passenger Transportation Company" addressed to 36 Pikk Street, Tallinn EE0100, Estonia, the Chancellery of AS Eesti Raudtee.

10. Only the tenders that have arrived to the address indicated in Section 9 hereabove by 14:00 hours, August 1st, 1998, Estonian time, shall be considered as participating in the Competition.

CONTRACTS & TENDERS

REPUBLIC OF LEBANON

MINISTRY OF MUNICIPAL AND RURAL AFFAIRS

COUNCIL FOR DEVELOPMENT AND RECONSTRUCTION

SOLID WASTE/ENVIRONMENTAL MANAGEMENT PROJECT

MODIFIED INVITATION TO TENDER

Cazas of Tripoli (Tripoli, El Mina, El Bedawi, El Bahsas and El Qalamoun)

Packages 1 and 3: Supply of Collection and Cleaning Equipment

The Republic of Lebanon has received funding from the International Bank for Reconstruction and Development (IBRD) towards the cost of improvement of the solid waste management sector in Lebanon and it is intended that parts of the proceeds of this loan will be applied to eligible payments for the Supply of Cleaning Equipment project for the Cazas of Tripoli.

The Republic of Lebanon, represented by the Ministry of Municipal and Rural Affairs and the Council for Development and Reconstruction (CDR), invites sealed bids from eligible contractors for the following:

PACKAGE 1: Supply of 3 waste collection compactor trucks (capacity 5m³) and 6 waste collection compactor trucks (capacity 10m³).
PACKAGE 3: Supply of street sweeping mobile equipment, namely 7 pick-up vehicles, 1 utility truck, 1 mechanical street washing / watering vehicle, 1 mechanical street sweeper, 1 wheel loader and 1 water tank truck.

This project will be administered by CDR based upon the World Bank's guidelines and the packages will be considered separately and distinctly. Contractors can acquire the bidding documents and bid for one or both of the above-mentioned two packages.

Contractors who have already undertaken similar projects are invited to apply for one or both of the above-mentioned packages and will be subject to post-qualification according to the criteria stated in the bidding documents.

The bidding documents will be available for collection at CDR offices against the sum of US\$ 200 (two hundred) for each package in the form of a banker's certified check in the name of the Council for Development and Reconstruction as of Monday 25th of May 1998 and are to be returned before twelve o'clock noon (Beirut local time) on Monday 15th of June 1998 at the following address: The Council for Development and Reconstruction - Talat el Serrail - Beirut - Lebanon.

The bid opening will take place at the CDR on Monday 15th of June 1998 at twelve o'clock noon (Beirut local time). Further information may be obtained from: The Council for Development and Reconstruction Talat el Serrail, Beirut, Lebanon - Phone: 961-1-981 431/2 - Facsimile: 961-1-647 947

REPUBLIC OF LEBANON

MINISTRY OF MUNICIPAL AND RURAL AFFAIRS

COUNCIL FOR DEVELOPMENT AND RECONSTRUCTION

SOLID WASTE/ENVIRONMENTAL MANAGEMENT PROJECT SECTOR

MODIFIED INVITATION TO TENDER

Cazas of ZAHLE, BAALBECK and HERMEL

Packages 2, 3 and 4: Supply of Collection and Cleaning Equipment and the Equipment for Transfer Station

The Republic of Lebanon has received a loan (No 3859 LE) from the International Bank for Reconstruction and Development (IBRD) towards the cost of improvement of the solid waste management sector in Lebanon (SWEMF) and it is intended that parts of the proceeds of this loan will be applied to eligible payments for the Supply of Collection and Cleaning Equipment and Transfer Station for the Cazas of Zahr, Baalbeck and Hermel.

The Republic of Lebanon, represented by the Ministry of Municipal and Rural Affairs and the Council for Development and Reconstruction (CDR), invites sealed bids from eligible contractors for the following:

PACKAGE 2: Supply of 11 waste collection compactor trucks (capacity 5m³) and 20 waste collection compactor trucks (capacity 10m³).
PACKAGE 3: Supply of street sweeping mobile equipment, namely 12 pick-up vehicles, 3 utility trucks, 2 mechanical street washing / watering vehicle, 2 mechanical street sweepers, 3 wheel loader and 3 water tank trucks.

PACKAGE 4: Supply of transfer mobile equipment, namely 1 transfer truck and 1 transfer trailer.

This project will be administered by CDR based upon the World Bank's guidelines and the packages will be considered separately and distinctly. Contractors can acquire the bidding documents and bid for one or more of the above-mentioned three packages. Please note that Bid Documents, for packages No. 1 and 5 for this same tender as collected according to the previous announcement remain unchanged.

Contractors who have already undertaken similar projects are invited to apply for one or more of the above-mentioned packages and will be subject to post-qualification according to the criteria stated in the bidding documents.

The bidding documents will be available for collection at CDR offices against the sum of US\$ 200 (two hundred) for each package in the form of a banker's certified check in the name of the Council for Development and Reconstruction as of Monday 25th of May 1998 and are to be returned before twelve o'clock noon (Beirut local time) on Monday 15th of June 1998 at the following address: The Council for Development and Reconstruction - Talat el Serrail - Beirut - Lebanon.

The bid opening will take place at the CDR on Monday 15th of June 1998 at twelve o'clock noon (Beirut local time). Further information may be obtained from: The Council for Development and Reconstruction Talat el Serrail, Beyrouth, Lebanon. Tel: 961-1-981431/2 - 981253 - 643980/1 Fax: 961-1-864494 - 647947

LEGAL NOTICES

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

No. 006303 of 1996
No. 01056 of 1998
No. 01057 of 1998

In the Matter of

BARINGS PLC

(In Liquidation)

In the Matter of

Bishopscourt (BGH) Limited

(formerly BARING GROUP HOLDINGS LIMITED)

(In Liquidation)

In the Matter of

Bishopscourt (BB&Co.) Limited

(formerly BARING BROTHERS AND CO., LIMITED)

(In Liquidation)

and in the Matter of the Insolvency Act 1986

NOTICE IS HEREBY GIVEN, pursuant to Rule 11.2(1A) of the Insolvency Rules 1986, that the liquidators of the above-named companies (hereinafter called "PLC", "BGH" and "BB&Co") which are being wound up pursuant to the orders of the Court dated 25th November 1996 (for PLC) and 16th March 1998 (for BGH and BB&Co) intend to pay a first dividend to creditors within the period of 4 months from 17th June 1998.

PROVIDED THAT such dividend shall only be paid if the English High Court shall have first sanctioned a scheme of arrangement under section 425 of the Companies Act 1985 (hereinafter called "the scheme of arrangement") proposed to be made between PLC and BB&Co and their respective scheme creditors as defined in the scheme of arrangement in relation to the payment of amounts due from PLC and Baring BV on the 1986 Notes and the Perpetual Notes as defined in the scheme of arrangement and the scheme of arrangement shall have become effective in accordance with section 425(3) of the Companies Act 1985.

AND TAKE NOTICE that pursuant to a direction of Sir Richard Scott VC dated 29th April 1998 the creditors of PLC, BGH and BB&Co are required, on or before 17th June 1998, to prove their debts by sending to the undersigned Nigel James Hamilton, Margaret Elizabeth Mills and Alan Robert Bloom of Ernst & Young, Becket House, 1 Lambeth Palace Road, London SE1 7EU, the liquidators of PLC, BGH and BB&Co, a proof of debt in the prescribed form and, if so required by the liquidators, to verify their claim of debt by an affidavit of debt. A creditor who has not proved his debt before the date mentioned above is not entitled to disturb, by reason that he has not participated in it, the first dividend or any other dividend declared before his debt is proved, and the liquidators will not be obliged to deal with the proofs of debt lodged after the last date for proving, 17th June 1998.

Dated this 22nd day of May 1998
Nigel James Hamilton, Margaret Elizabeth Mills and Alan Robert Bloom, the liquidators of PLC, BGH and BB&Co of Becket House, 1 Lambeth Palace Road, London SE1 7EU.

BUSINESSES WANTED

TELECOMMUNICATIONS WANTED

European switchless re-sellers required and IP network operators.

Principals only:

FAX ATTN OF

THE MANAGING DIRECTOR

FAX: 0171 678 1701

FRANCHISING

Do you just want to make a living?

Or build a future?

Print, Copying & Design is the life blood of every business.

And as an owner of a Kall Kwik Centre you will have the perfect introduction to all these businesses.

So if you have £45,000 to invest, the ability to manage your own team and enjoy dealing with customers, call us for an information pack quoting FT26/5.

FREEPHONE 0500 872640

Kall Kwik

PRINT COPY DESIGN

THE ARTS

The winner – after an eternity and a day

Nigel Andrews on the Palme d'Or winner, runners-up and losers as Europe's most prestigious film festival draws to a close for another year

Greek director Theo Angelopoulos, who has been a giant of film festival cinema for 25 years, ever since *The Travelling Players* bowed at Cannes, and who made an audibly hurt runner-up speech three years ago when *Ulysses' Gaze* narrowly lost to the rival Balkan epic *Underground*, has at last won the Palme d'Or.

Eternity And A Day, a meditative odyssey on themes of loss and love, was the last film to be shown in the competition – thereby ruining Cannes betting cards. These were filled with shortlisted favourites-to-date (which were previously reported here) such as Boorman's *The General*, Benigni's *Life Is Beautiful* and Leach's *My Name Is Joe*. The first was consoling with a best director prize while the second made do with a grand

jury prize. The third took best actor for star Peter Mullan, which must have left Leach himself feeling a little robbed.

French director Erick Zouka might have expected more too than a best actress prize – for his eulogised first feature *La Vie Rêvée Des Anges*. The slight plot about two female flatmates split apart by one girl's torrid love affair is enriched by Zouka's laser-sharp detailing as well as Bouchez's powerful performance.

Two films about child abuse were rewarded with "special jury prizes". France's unconvincing mood-piece *La Classe De Neige* deserved it less than Denmark's stiffly brilliant *Celebration*. Thomas Vinterberg's handheld-camera tragicomedy about a

family reunion – T.S. Eliot out of Mike Leigh – is often bleakly hilarious, though there may be something too neatly auto-destructive about a plot where everyone has a chip on his shoulder and/or chips away at other people.

Several films, especially late on, battled for Palme de Dresse. From Russia, Alexei German's *Khrushchev, My Car!* took wacky comedy to criminal lengths in a political satire apparently photographed by St Vitus.

Rector Pizote Babenco gave us *Illuminated Heart*, in which a boy and a mentally disturbed girl love each other to distraction – the audience's distraction – over long scenes and years. And for half an hour Todd Haynes's *Velvet Goldmine* looked as if it

too might be a booby prize contender.

The maker of art-house samizdats such as *Poison* and *Safe* goes pop in this satirical fable about the Glam Rock early 1970s. Filming in psychedelic hues, he throws everything at us from the ghost of Oscar Wilde to Ryan McGreggor as a blond-wigged bisexual American rocker entwined romantically with a British counterpart (Jonathan Rhys-Meyers).

In this film it is good to be gay. It is not so good to be sitting in the third row of the stalls. Eyes and ears are assaulted, although eventually you sit back and enjoy. This is not an argument for aesthetic rape; just that with Haynes you have the sense that anything can happen and eventually things you do not like will yield to things you do.

Elsewhere at Cannes minimal-

ism was big. In film after film in the festival's second week, we gazed at the screen looking for movement like birdwatchers gathered in a 2,000-seat hide. Many gave up completely on Hou Hsiao-hsien's *Flowers Of Shanghai*, walking out midway through this broche-set still life seemingly without end.

Shuffling off his sometimes cumbrous symbolism, Angelopoulos makes a spare, forked, beautiful movie about the choices offered by the path of life

Lodge Kerrigan's *Cloire Dolan* was more gripping, just: the tale of an American call-girl (Kathryn Carlin) with (accident) battling ruminally with love and *amor moris*. You come out humming

the architecture, fabulously photographed in bleak Antonioni mode.

But the best no-frills latecomer was the winner. As a title *Eternity And A Day* almost invites rude remarks. For detractors it is the average running time of a Theo Angelopoulos movie. But here

world where no one quite belongs but which no one, also, wants to leave.

For all the film's slowness, we don't want to leave either. Shuffling off his sometimes cumbrous symbolism, Angelopoulos makes a spare, forked, beautiful movie about the choices offered by the path of life and the final no-choice face-off between life and death.

Minimalism signed out. Inevitably, just before the closing night film. This was *Godzilla*, the spirit of movie maximalism. The creature stomped into town scattering hotels, yachts, limos and critics. He/she was screened out of competition – which may have angered him/her even further – while I and anyone else who could escaped via Nice Airport.

Best, we thought, to postpone the monster meeting until *Godzilla's* fine-tuned July Euro-release. Especially, we also thought, after a Cannes Festival whose tasty astringent variety hardly needed a big-bang ending at all.

ART THE TATE, LIVERPOOL

A Cubist adventure on the Mersey

William Packer welcomes the gallery's new spaces

The north-western corner block of Liverpool's Albert Dock, with its high, spectacular views across the Mersey, remains to all outward appearance much as it was when it was built early in the 19th century – albeit a little smarter, with the wear and tear of ancient commerce long since repaired, but as massive and handsome as ever.

Taken over by the Tate in the mid-1980s and opened as its northern arm in 1988, it has, however, been closed these past 18 months for

Last week's reopening is a cause for celebration

extensive interior remodelling to finish what the late James Stirling's original plans: the conversion into exhibition galleries of the building's top floor, high up under the barrel roof and commanding the most spectacular views of all.

In the hands of Stirling's successors, Michael Wilford and Partners, the opportunity has also been taken to rationalise and extend the administrative offices, the shop, café and entrance hall. A further 30 per cent of the actual space has now been brought into use, at a total cost of just under £7m, £3.5m of which came from the Heritage Lottery Fund, with the balance met by the five local boroughs and corporate and private donors.

Some might ungenerously wonder why all this was not done in the first place, at less cost. But pre-lottery and during a recession, there is little to wonder at. Visitor

numbers were grossly underestimated, the pattern of use as it evolved was naturally unforeseen. Curatorial priorities and practices change, and the very latest equipment and techniques bring new opportunities. Two years on is no bad time to try again, in the light of practical experience, to get things right.

Last week's reopening, then, is cause for celebration: the successful accomplishment of a sensible scheme that gives the institution a national rather than regional importance.

The opening displays are curiously low-key; indeed, those new galleries at the top are still effectively exhibiting in themselves. They are generous, light and airy spaces exhibiting installations by six artists – including one of last year's Turner finalists, Christine Borland (with a set of blue-and-white porcelain skulls) – who were asked to make a work in some sense based upon the city of Liverpool. They are shown as part of "Artraspennings", a far wider project that throughout this summer is running innumerable related exhibitions in a broad swathe across the entire country, from Liverpool to Hull.

The other displays prove more substantial, serving the admirable if understated purpose of celebrating the strength in depth of what the Tate has now taken to calling its National Collection of Modern Art.

The *Spirit of Cubism* in particular is gratifyingly impressive, not least because it demonstrates the Tate's principled nerve in consigning one of the most important groups of work in its entire collection to the North of England for a whole year. It has become a conventional British response to come away from visiting modern collections in Paris or New York not merely impressed, but belittling our own. Yet



A gratifyingly impressive show: 'East of a Woman' (1908) by Picasso

here we have, in examples of the highest quality, a full account of the Cubist adventure which started with Picasso's 'Demoiselles d'Avignon' of 1907, now in New York, and ended with his great 'Three Dancers' of 1925, which the Tate acquired direct from Picasso in 1965, for all of £80,000 and to questions in the House.

Here, on the cusp of Surrealism, 'Three Dancers' concludes a show that begins by tracing sources back to Cézanne on the one hand and tribal sculpture on the

other, and with Picasso and Braque in their brief, intimate collaboration between 1908 and 1911. The widening ripples and after-shocks are registered in the works of such as Gleizes, Gris, Lipchitz and Laurens, parallels drawn with Mondrian. It is an absorbing study exhibition.

Urban, in the gallery next door, is a more loosely thematic, less solidly art-historical display, drawing upon the collection from the turn of the century, with Severin's speeding, smoky railway

train, and Delaunay's fractured cityscape above the roofs of Paris, to Lisa Milroy in Finsbury Square almost the day before yesterday, and with Auerbach, Koon, Hamilton, Grosz and so on into the bargain. It is a loosely interpreted theme: Mondrian is here again, but now in the 1930s at his most rigorously reductive; Ellsworth Kelly in 1958 as minimal as he would ever be, and Mary Martin with an hypnotic abstract mobile oddly reminiscent of Magritte's strange flying objects.

A rolling miscellany of Modern British Art completes the present visual treat – landscapes, still-lives, sculpture, figuration, abstraction – from Vanessa Bell to David Hockney, Henry Moore to Ghisla Koenig, William Nicholson to his son, Ben.

The *Spirit of Cubism: Urban: Modern British Art* – all from the National Collection: The Tate Gallery Liverpool, Albert Dock, Liverpool 3, until April 1998. Artraspennings, until August 16.

retrospective comprising some 220 paintings and drawings by the early modernist; to May 27

PARIS

CONCERTS

Théâtre des Champs Elysées Tel: 33-1-48525050

● Natalie Dessay: recital by the soprano, with the Orchestra de Paris conducted by Juri Mark. Programme includes works by Ravel, Granados, Debussy, Rachmaninov and Glazunov; May 27

● Orchestre National de France: conducted by Yuri Temirkanov in works by Rimski-Korsakov, Rachmaninov and Elgar. With piano soloist Yefim Bronfman; May 28

● Vienna Philharmonic Orchestra: conducted by Sefi Ozawa in works by Brahms and Stravinsky; May 26

PRAGUE

CONCERTS

Dvorak Hall

Midori: recital by the violinist of works by Beethoven, Brahms, Szymanowski and Saint-Saëns. With pianist Robert McDonald; May 28

Smekarna Hall

Kathleen Battle: recital by the soprano of works by Handel, Wolf, Faure, Rossini and Turina. Accompanied by pianist Roger Vignoles; May 28

ROTTERDAM

EXHIBITIONS

Kunsthall Tel: 31-10-440 0300

FINE ART FAIR NEW YORK

Rain starts play at the Armory

After five years, the International Fine Art Fair seems to have finally found its footing. Organised by promoters Brian and Anna Haughton at New York's Park Avenue Armory, this year's incarnation (May 7-13) was one of its most successful ever – a fact due less to the quality of art on offer than to the most capricious of reasons.

First, the Haughtons were lucky with the weather. The May fair usually coincides with New York's first kiss of summer, sending every sane person to their vacation cottages, beaches or parks. This year, New York was soaked by 12 days of rain. In search of a nice place to kill a few hours while waiting for the rain to cease, a good number of the damp public outside found their way to the Armory.

The second reason for the fair's popularity was that just when the buoyant economy has spawned dozens of potential collectors, the auction houses came up short. Thin pickings at both Sotheby's and Christie's spring sales made the Armory's offerings an attractive alternative.

Third, the Haughtons changed their opening-night charity, which proved popular. The glittering black-tie opening dinner drew over 1200 people and raised a record \$750,000 for the Lenox Hill Neighborhood House, a social services agency for Manhattan's Upper East side. Happily for the dealers, several first-night purchases were made, including 'Still-Life of Roses' by Fantin-Latour at Galerie Schmit (Paris) for just under \$1m. Although old master pictures made less of an impression this year compared to past fairs, a handful sold, most notably Richard Green's large Doral still life by Abraham Mignon, and Aert van der Neer's 'Winter Landscape' sold by Clovis Whitfield.

Drawings in particular were popular. London dealers Spink/Leger sold eight sheets, notably a rare pen-and-wash Gothic fantasy by Victor Hugo, for \$300,000,

and an especially sensitive pen-and-wash sheet of 'Mourning Women' by John Flaxman for \$55,000.

Although the May fair began as primarily an old masters event, the increasing paucity of attractive material has led impressionists and other 19th century paintings to dominate the proceedings. Paris dealers were particularly successful, with Galerie Daniel Malingue selling a fine Pissarro, 'La Route de Louveciennes', for \$1.9m, and among Galerie Hopkins-Thomas' sales was a 1901 Monet pastel of Charing Cross Bridge for \$740,000.

Hollis Taggart Galleries of New York brought American pictures in the \$30-80,000

Encouraging were the number of sales of paintings of serious, but uncommercial, subjects

range by mostly lesser-known artists, selling a still life by Anna Elizabeth Hardy for \$22,000. Moderately priced 19th-century French sculpture and medals from David and Constance Yates of New York and 19th-century French drawings from Neil Fierdag of Paris were also popular.

But perhaps the most encouraging aspect of the fair was the number of sales of serious uncommercial subjects. Patrick Derom of Brussels sold both a Belgian symbolist drawing of an Archangel by Jean Delville and a Henry de Groux pastel of a jowly Richard Wagner. And Paul Delacroix's sombre 'Lamentation Beneath the Cross' was sold by W.M. Brady to an American museum for \$45,000. All these gave life to the comment such items usually elicit: 'You'll never sell that at an art fair – people won't understand it!'

Paul Jeromack

INTERNATIONAL

Arts Guide

AMSTERDAM

OPERA

Netherlands Opera, Het Muziektheater

Tel: 31-20-551 8911

Siegfried: by Wagner. New production conducted by Hartmut Haenchen in a staging by Pierre Audi; Jun 1

BERLIN

CONCERTS

Philharmonie

Tel: 49-30-2548 8354

Berlin Philharmonic Orchestra: conducted by Bernard Haitink in works by Schubert and Shostakovich. With soloist Matthias Goerne; May 28, 30, 31

DUBLIN

EXHIBITION

Irish Museum of Modern Art

Tel: 353-1-612 5900

Brian Cronin: Fat Face With Fork. First exhibition in Ireland of work by the Dublin-born, New York-based illustrator. Spans his career from his first illustration to recent drawings, and includes

sketches and source material; to Jun 1

FLORENCE

OPERA

Maggio Musicale Fiorentino

Tel: 39-55-211158

www.maggiofiorentino.com

● La Comte Ory: by Rossini. New production conducted by Roberto Abbado in a staging by Lorenzo Mariani. ETT-Teatro della Pergola; May 27, 28, 30

● Wozzeck: by Berg. New production by William Friedkin, conducted by Zubin Mehta; Teatro Comunale; May 26, 29; Jun 1

GLASGOW

OPERA

Scottish Opera, Theatre Royal

Tel: 44-141-332 9000

The Queen of Spades: by Tchaikovsky. Conducted by Richard Armstrong in a staging by Yannis Kokkios; May 28

GLYNDEBOURNE

OPERA

Glyndebourne Festival Opera

Tel: 44-1273-815 000

● Così Fan Tutti: by Mozart. New production by Graham Vick, conducted by Andrew Davis. Cast includes Alan Ope and Barbara Frittbl. With the London Philharmonic Orchestra; May 30; Jun 1

● Katya Kabanova: by Janáček. Revival of Nikolaus Lehnhoff's production, conducted by Yakov Kreizberg, with designs by Tobias Hohel. Cast includes Amanda Rocco. With the London

Philharmonie Orchestra; May 28, 29, 31

HELSINKI

OPERA

Finnish National Opera

Tel: 358-9-4030 2211

● Siegfried: by Wagner. Conductor Leif Segerstam, director Götz Friedrich and designer Gottfried Pilz continue their collaboration on the Ring with this new production. The title role is sung by Stig Andersen; May 29

● The Magic Flute: by Mozart. New production by Swedish director Etienne Glaser, designed by Peter Tillberg; May 28

LAUSANNE

EXHIBITION

Fondation de l'Héritage

Tel: 41-21-320-5001

Pointillism: more than 100 works, including loans from Europe and the US, tracing the influence of Seurat on a generation of young painters at the turn of the century; to Jun 1

LONDON

CONCERTS

Barbican Hall

Tel: 44-171-638 8881

London Symphony Orchestra: André Previn conducts a programme of works by Copland, Previn and Schumann; May 31

Royal Festival Hall

Tel: 44-171-960 4242

Vienna Philharmonic Orchestra: conducted by Riccardo Muti in works by Brahms and Stravinsky;

May 28

MUNICH

CONCERTS

Philharmonie Gasteig

Tel: 49-89-5481 8181

● Bavarian Youth Orchestra: conducted by Reinhard Steinberg in works by Brahms and Berlioz. With piano soloist Paul Rivinius; May 27

● London Classical Players: conducted by Roger Norrington in works by Haydn and Mozart. With violin soloist Thomas Zettnert and viola soloist Ruth Kilian; May 28

NEW YORK

CONCERTS

Lincoln Center

Tel: 1-212-721 6500

www.lincolncenter.org

New York Philharmonic: world premiere of Del Tredici's The Spider and the Fly, for Vocals and Orchestra, conducted by Kurt Masur. The programme is completed by works by Copland, Vivaldi, Weber and Ravel; May 28, 30

EXHIBITIONS

Metropolitan Museum of Art

Tel: 1-212-879 5500

www.metmuseum.org

Paul Strand, Circa 1916: 50 rare prints, focusing on the photographer's early works; to May 31

Museum of Modern Art

Tel: 1-212-708 9480

www.moma.org

Fernand Léger (1881-1955):

● Business/Market Reports:

05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTV reports live from Liffe as the London market opens.

COMMENT & ANALYSIS



MARTIN WOLF

Indonesia's legacy

To most people Suharto was a corrupt dictator whose fall will enable his country to recover. Alas, things are more complicated

What are the lessons of Mr Suharto's downfall? One is that financial plagues of astonishing virulence can afflict countries with few obvious signs of vulnerability. A second is that despotism and disowning their past more difficult than democracies. A third is that opportunity can spring even from disaster. But a happy ending is far from ensured. Indonesia will need much luck, good policy – and outside help.

It is now the country expected to suffer most from the financial disease that has swept much of Asia. At the end of April, the Washington-based Institute for International Finance forecast that the economy may contract 12.5 per cent this year, while inflation could reach 48 per cent. By comparison, the IMF forecasts the shrinkage of the Thai and South Korean economies at only 7 per cent and 5 per cent, respectively. At its trough, in January, the rupiah had lost five-sixths of its value.

In a low-inflation economy with an excellent long-term record, this must be unprecedented. Imagine what would happen to the UK if sterling fell, within a few months, to 40 US cents. Nobody expected this disaster. As recently as last October (ie, after the first round of Asian trouble) the International Monetary Fund forecast Indonesia's economic growth at 3 per cent this year.

It had good reason for such confidence. Notwithstanding the massive accumulation of wealth in the hands of his family and friends, Mr Suharto had to his credit 32 years of successful government of a far-flung country with as many people as Germany, France and

the UK put together.

His governments had confronted many difficulties. Yet, according to the World Bank, the proportion of Indonesians living on an income of a dollar a day (in 1985 dollars, at purchasing power parity) shrank from 64 per cent in 1975 to only 11 per cent in 1995. Even China did not do as well. Between 1970 and 1995, life expectancy jumped from 48 to 64; the adult literacy rate rose from 54 per cent to 84 per cent; real incomes per head of the poorest 20 per cent rose by 130 per cent; and the infant mortality rate halved.

Even last summer, Indonesia had few symptoms of the disease it was to catch. It had not suffered from a marked decline in the return on investment, unlike Korea and Thailand. It had not had an investment boom: the share of investment in gross domestic product was 32 per cent in 1996 against 36 per cent in 1990. Its budget had been in small surplus throughout almost all of the 1990s and inflation had been

below 10 per cent.

Its current account deficit had not been above 4.4 per cent of GDP in this decade and, according to J.P. Morgan, its real exchange rate was only 5 per cent higher in 1996 than in 1990. Unlike Thailand, Indonesia had not experienced explosive growth in domestic bank credit to the private sector.

There had also been no rapid increase in liabilities to foreign banks: the ratio to GDP was 25 per cent in 1996, against 24 per cent in 1993. And, in mid-1997, two-thirds of loans from foreign banks were to the non-bank private sector.

Yet Indonesia did make two lethal errors. First, it allowed the non-bank private sector to accumulate unhedged short-term foreign liabilities that exceeded official foreign-exchange reserves by 70 per cent in mid-1997. Second, it allowed the banking sector to operate with a high level of non-performing loans. Cronyism helps to explain the poor condition of

domestic banks and the confidence with which foreigners lent to the non-bank private sector. But the importance of the despotism, or the corruption, or even both together, must not be exaggerated. After all, Thailand was a democracy, while South Korea was governed by its first elected civilian president.

Transparency International – the Berlin-based, anti-corruption watchdog – rated Indonesia the 46th most corrupt of 51 countries, in 1997. But the 45th was India – both a democracy and crisis free. Where the nature of the regime was important was in its failure to restore lost confidence. The touchstone for credible policy became the demands of the IMF – and the ageing Mr Suharto was demonstrably unwilling to meet those demands.

Yet it would be wrong to blame the disaster on the regime alone. As Steven Radelet and Jeffrey Sachs of the Harvard Institute for International Development have argued, a self-reinforcing and contagious panic has been a central part of the story, particularly in Indonesia. A central question has been how to halt it.

The IMF has recognised the importance of panic. But it emphasises the need for changes in policy, to restore confidence. Its programmes have called for some fiscal and monetary tightening; radical structural reform, including de-monopolisation; closure of bankrupt financial institutions; and swift recapitalisation of the remaining banks. Moreover, wishing to avoid nationalisation of private-sector debt, the IMF was determined not to become too heavily involved in negotiations to reschedule and write off such liabilities.

The critics assert that breaking up monopolies, albeit desirable, had virtually no relevance to the immediate crisis; bank closures exacerbated the panic; fiscal tightening was unnecessary in a country with Indonesia's long record of prudence; and the delay in dealing with the overhang of private-sector debt made restoration of confidence in effect impossible. For the critics, the IMF's medicine

will make the patient far weaker than need be.

The point, however, is not whether the critics are right – in some respects they are. It is rather that Mr Suharto was a pariah in a world led by a US that had become embarrassed by an ageing dictator who had once been a valued ally. The superpower was determined, in the post-cold war era, to promote democracy.

Against this background, Mr Suharto could not afford to be at loggerheads with the IMF as well. It is no surprise that by the end of March, Korea had received \$21.7bn in official assistance, Thailand \$10.5bn and Indonesia a mere \$3bn. It is little more of a surprise then that private sector confidence was also remained absent.

Mr Suharto leaves behind a country set for a messy transition to an uncertain democracy in the midst of a slump.

If the economy is to recover, the overhang of short-term debt to the private sector must be eliminated by a mixture of rescheduling, debt-equity swaps and write-offs; a way must be found to expand the supply of domestic and foreign credit to potentially profitable enterprises, particularly exporters; and confidence in political stability must be restored, generating a return of flight capital and new inward investment.

To obtain the international support it needs, the new government must impose austerity, introduce economic restructuring and deal with the controversies over the purloined assets of the Suharto family. President Habibie is most unlikely to pull off anything close to this. His is a transitional government in a country that cannot afford a prolonged transition. If worse is not to come, Indonesia needs a miracle.

Steven Radelet and Jeffrey Sachs, The Onset of the East Asian Financial Crisis, 1998, and the East Asian Financial Crisis: Diagnosis, Remedies, Prospects, 1998. <http://www.hks.harvard.edu/pubs/others/asacrisis.html>

Martin Wolf@FT.com

LETTERS TO THE EDITOR

US now sees Africa as important player in the global marketplace

From Mr W. W. W. W.

Mr Philip Stephens' Afro-pessimism, developed in his article "Forgotten continent" (May 15), is unfortunate for its one-sided view of political and economic trends on the African continent. When Mr Stephens asks, "who cares if Africa falls off the edge of the global marketplace?", the answer is swift and resounding: many governments do, especially the Clinton administration, as do many people in North America, Europe and Asia. Those people who care the most are the 700m who popu-

late sub-Saharan Africa.

If Africans and the international community did not care, economic growth would not be approaching 5 per cent on a continent-wide basis. Nor would the number of countries which have established some form of democratic government have increased from five in 1990 to more than 25 in 1998. Moreover, there would not be the sharp increase in trade and investment between Africa and its international partners, especially the US, that is occurring today.

The African "renaissance", while fragile, is a reality. It

is powered by an unrelenting belief by many African leaders and their international partners that quality of life will be far better in the first quarter of the 21st century than in the last part of the 20th century. As President Clinton said during his recent visit to the continent, Africa's entry into the global marketplace is a matter of enlightened self-interest.

Witney W. Schneidman, deputy assistant secretary of state for African affairs, United States Department of State, Washington D.C. 20520, US

Monetary stimulus to Irish economy

From Mr Dan McLaughlin.

Sir, Your leader on the Irish economy ("Irish boom", May 20) understates the monetary stimulus given to the economy by ECU membership. Nominal interest rates will fall substantially but there will be a larger decline in real interest rates.

Irish inflation is currently 2.5 per cent and may be 3.5 per cent by year-end, as a result of the punt's depreciation over the past 18 months.

Under normal circumstances higher inflation would prompt a unilateral rise in nominal rates but this cannot happen if the punt is fixed within the euro. So by end-1998 real 10-year yields in Ireland may be less than 2 per cent and real three-month rates may be below 1 per cent, which is likely to give a further stimulus to borrowing and increase demand for real assets, such as equities and property.

In the longer term, Irish

inflation should in theory decline as competitiveness is eroded but this could take some time. In the short term, lower real interest rates in Ireland can only exacerbate the property boom in Dublin and widen the gap between Irish economic growth and that in core Europe.

Dan McLaughlin, ABN AMRO Stockbrokers, ABN AMRO House, IFSC Dublin 1, Republic of Ireland

'Non-nerd' position in Microsoft debate

From Mr Douglas Finney.

Sir, Perhaps it is time for the voice of "non-nerds" to be heard in the Microsoft argument. I am a "fifty-something" who has had to familiarise himself with word processing, spread sheets and so on. I have no understanding or feeling for the technology. I require something that is comprehensible and works.

Bruce Page (Letters, May 21) blinds us with science in a demonstration that Microsoft does not innovate. We

"non-nerds" would suggest that Windows is a considerable innovation, arguably one of the most important enabling factors for the creation of small business. When I buy a car I do not want to have to undertake in-depth research regarding air-conditioners. I am happy with what is installed.

Meanwhile, in his article "A window of opportunity?" (May 21), Peter Martin underlines the inevitability of Microsoft's commercial strategy. The "non-nerd"

view is that spending hours of time learning new, incompatible methods, as proposed by the company every two years, represents a terrible cost.

In short, neither the arguments of the "hate Microsoft" campaign nor those of its defenders addresses my concerns. I believe that I am in a huge majority, from secretary to chairman.

Douglas Finney, 34 Bellingrove Grove, London SW11 6EJ, UK

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers worldwide. Letters may be sent to +44 171-873 6038 (ext. 10) to "line", email: letters.editor@ft.com. Published letters are also available on the FT web site, <http://www.ft.com>. Translation may be available for letters written in the main international languages. Fax: +44 171-873 6936. Letters should be typed and not hand written.

PERSONAL VIEW N. GREGORY MANKIW

The Microsoft quick quiz

In a course on public policy, I wouldn't give the Justice Department a pass if the case were an exam question – the company would get the better grade

If the Microsoft case were an exam question, it would go roughly as follows: "Once a company has earned a dominant share in its market, its decisions over product design and marketing should be regulated by the government. True or false? Explain and justify your answer."

The US Justice Department is, in effect, answering "true", while Microsoft is, not surprisingly, answering "false". If I were reading the exams, Microsoft would get the better grade.

Let us start with the points of agreement. No one disputes that Microsoft now sells the lion's share of operating systems on personal computers. Consumers do have alternatives to Microsoft's Windows, such as OS/2, Unix, and the Apple Mac, but these make up less than 20 per cent of the market.

In addition, no one disputes that Microsoft achieved its large market share legally. Put simply, Microsoft became the market leader by giving consumers a good product at a good price. Computer aficionados might argue that other companies have offered more cutting-edge technology but for the great unwashed masses of computer users (including myself), Microsoft has been part of the trend toward easier and cheaper computing. Even most of the firm's critics admit that the history of Microsoft shows capitalism at its best.

Now comes the hard part: Given Microsoft's current position, can we trust market forces to limit Microsoft's hegemony? The government says no. Of the many issues in dispute, the most important involve product design. The government argues that if Microsoft is allowed to integrate internet technology into Windows, it will use such bundling to extend and protect its market power. Microsoft, on the other hand, views integration not as anti-competitive but as an attempt to give consumers a better product.

No one can deny that putting new features into old products is a natural part of technological progress. Cars



Microsoft chairman Bill Gates (left)



and Joel Klein, head of antitrust at the Justice Department

today include stereos and air-conditioners, which were once sold separately. Calculators come with amortisation tables.

The history of operating systems also shows how increased integration serves consumers. Over time, Microsoft has added many features to Windows that were previously stand-alone products. This has made computers easier to use because consumers can be confident that the pieces work together. Just as important, it has allowed software developers to rely on a more powerful operating system when writing applications. The integration of internet technology is the natural next step.

The important policy question, however, is not whether internet technology should be integrated with the operating system but who in society should make that determination. Normally, in a free-market economy, decisions over product design are made by entrepreneurs, who in turn are trying to attract customers. By contrast, the Justice Department wants to give a central role to judges. It wants the courts to balance the benefits of an integrated product against the claim that integration would enhance Microsoft's market power.

If the 20th century has taught one economic lesson, it is that central planning is

not a good way to run an economy. Yet the Justice Department is asking us to take a step in precisely that direction. If its position is accepted, then whenever Microsoft wants to add any new feature to its operating system, some software maker can claim harm to competition and some judge will have to rule on the validity of the claim. The courts would become regulators of product design in one of the world's most rapidly changing industries. This is surely not a job they are equipped to do.

An issue that separates Microsoft and its critics is the question of how much market power the company has. Clearly, the software industry does not fit the textbook model of perfect competition. As any economist student can explain, in perfectly competitive markets, prices are driven down to marginal cost – the cost of making one more unit of the product. Yet in software, marginal cost is essentially zero. Under perfect competition, software firms could never recover the large fixed costs of product development. Every successful software maker, therefore, has to have some degree of market power.

Microsoft's critics, however, often exaggerate the company's market power. They argue that network effects preclude any threat

to its dominant position: Users buy Windows because there are many application programs and programmers write applications for Windows because there are many users. No one could possibly compete with that, the critics claim.

But if Microsoft is really so invincible, why does it charge so little for its products? When you buy a new computer for, say, \$2,000, only about \$50 goes to pay for the Windows operating system. Consider what would happen if Microsoft doubled the price to \$100 and the computer price rose to \$2,050. Would sales of computers fall precipitously? Of course not. Why then doesn't Microsoft raise the price of Windows, which it has the legal right to do?

The answer is that more consumers would switch to the alternatives such as OS/2 and Unix (as well as pirated copies of Windows), other software makers would start marketing their operating systems more aggressively and new products would enter the market to compete with Windows. In short, what keeps the price of Windows to less than 3 per cent of the price of a new computer is actual and potential competition.

That same competition keeps Microsoft on its toes to keep improving its product design. The internet is at the heart of the current wave of innovation, so makers of operating systems – Microsoft as well as others – are naturally improving their products by adding internet technology. For the government to tell the company with the most popular operating system that it cannot make the same improvements as its competitors defies economic logic.

How then would I score the case brought by the Justice Department? In a course on economic theory, I would give it a B for creativity. In a course on practical public policy, however, I wouldn't give it even a pass.

N. Gregory Mankiw is an economics professor at Harvard University, author of *Principles of Economics*, and a consultant to Microsoft.

BUSINESS UNUSUAL.

Every Sunday at 6.30pm. (19:30CET.)

The companies making waves today aren't the ones playing by the old conventions. Introducing a new show on CNN that showcases business success stories home of inspiration, creativity and uncommon business leadership. Hosted by Lou Dobbs, broadcast worldwide.

In association with:

ARTHUR ANDERSEN

BUSINESS UNUSUAL

CNN INTERNATIONAL

J.P. W. W.

COMMENT & ANALYSIS

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922188 Fax: +44 171-407 6700

Tuesday May 26 1998

Mr Clinton's trade agenda

After several years of disconcerting drift, the US seems to be getting ready to re-join the mainstream of world trade policy. One sign was Bill Clinton's invitation to World Trade Organisation ministers in Geneva last week to meet in the US next year. Another was the appointment of Charlene Barshefsky, his top trade official, to chair the WTO's preparations for its next big liberalisation drive.

These events send welcome signals that America is determined to resist pressures to turn towards, and to renew its leadership of the multilateral trade system. The test of Mr Clinton's intentions will lie in winning the fast track authority to conclude trade agreements he failed to secure from Congress last year.

The electoral timetable makes the first half of next year probably this president's last opportunity to obtain fast track. He should start preparing now, and campaign much harder than last time for public support.

But fast track is only worth having on the right terms – as a clear mandate for further trade liberalisation. That aim faces resistance from anti-globalisation forces across the US political spectrum. Mr Clinton's advisers have responded with a campaign to make global trade policy more open and accountable to "civil society".

They are right to urge the WTO and its members to explain better what they are up to. However, opening the doors wider should not mean admitting participants bent on thwarting the policy's central purpose.

Mr Clinton needs to show more clearly that that is not his intention. Failure to define "civil soci-

ety" precisely has aroused suspicions that the term is a codeword for single-issue pressure groups, such as environmental and labour activists influential in Democratic party politics. How far they speak for society at large is debatable. They have difficulty agreeing common positions, and their demands for a bigger say in trade policy are contested by the Republican majority in Congress.

Many of these lobbyists appear bent on restricting trade. Regardless of WTO rules, they insist the US should exclude imports which do not meet its environmental rules, or their prescriptions for other countries' labour standards. Yielding to such demands would invite protectionism by default, if not by design. Incorporating them in fast track would antagonise trade partners and frustrate WTO negotiations.

Special interest lobbies have always played a big role in Washington. They cannot be ignored. But slavish acquiescence to their demands produces incoherent policy – as Mr Clinton's administration should know. To appease farmers, it has fought in the WTO against other countries' food safety regulations which impede trade. Yet to pacify greens, the US stoutly defends import restrictions caused by its own environmental rules. The obvious contradiction undermines both arguments.

A vital task for any US presidency is to shape policies which rise above narrow competing claims and meet the broad national interest. In Geneva last week, Mr Clinton sought to reassert US international leadership in trade. To succeed, he must now lead boldly at home.

Tung's dilemma

Anyone who thought that the people of Hong Kong did not care about elections or democracy should think again after the weekend elections. The turnout of 53 per cent, while not startling by international standards, was a record for the former British colony. In spite of decades of colonial rule when democracy was non-existent, a complex voting system and the baleful eye of Beijing, the voters had their say.

The result – which only decides one third of the seats in the territory's legislative council (LegCo) – was also a clear victory for candidates campaigning to accelerate democratic reforms. They won 14 of the 20 seats available, with 60 per cent of the vote. But thanks to the transitional system under which the territory was returned last year to Chinese rule, they will only be a minority in the 60-seat council and without any direct influence on the government of C.H. Tung, the chief executive.

Mr Tung deserves credit for the part he played in encouraging a good turnout. His administration spent HK\$500m in registering, educating and getting people to the polls. Now he needs to pay close attention to the result. So does Beijing.

The Basic Law, the territory's constitution, provides for a possi-

ble move to fully democratic elections to LegCo in 2007, although even then two-thirds of the council must agree. The democrats want to move faster. Neither Mr Tung nor Beijing is likely to tinker with the Basic Law, which underpins the entire delicate one country, two systems formula for mainland China and Hong Kong. But there is room for some flexibility.

Mr Tung should show he has heard the voters' message by working towards a democratic legislature as fast as possible. The election committee, a thoroughly unrepresentative body which chooses 20 legislators, should be reformed. The so-called functional constituencies, which select another 30, should have their franchise broadened.

Most important, the chief executive and his team must start thinking now how they will adapt political institutions for the advent of full democracy. That means appointing members of the government from the legislature and contemplating the concept of a ruling party and an opposition. The present executive council looks unrepresentative in the light of the vote, with too many pro-business and pro-Beijing members. Mr Tung would do well to contemplate a shake-up there, too.

Hungary's poll

After four years of competent rule under the Socialists, Hungarian voters have taken a step into the unknown by putting into power a political party whose expensive campaign promises to betray its lack of experience in government. The centre-right Fidesz-Hungarian Civic party seems likely to govern with the rural-based Independent Smallholders and the conservative Hungarian Democratic Forum.

Such an outcome would almost certainly promise greater stability than the grand coalition of Fidesz and the Socialists which was the preference of Hungary's financial markets. But it was still hardly surprising that investors dumped Hungarian shares yesterday, causing Budapest's BUX index of 20 major shares to lose 8.7 per cent of its value. The economic programmes of Fidesz and the Smallholders need prompt clarification.

In search of faster growth and lower unemployment, Fidesz has promised to cut taxes, increase consumption and even abolish the crawling peg devaluation of the forint, which had been the centrepiece of the outgoing government's anti-inflation policy. Such measures could well increase the budget deficit, while the current account deficit and undo much achieved by the Socialists since 1994.

Some of the Smallholders' policies seem even more dubious. They have proposed to scrap unitary tuition fees, build low-cost housing projects and spend money on regional development, but have had little to say about how they would fund such initiatives. When he forms his government, the leader of Fidesz and prospective prime minister, Viktor Orbán, would be wise to keep important economic ministries out of the Smallholders' hands. He should also take care to maintain good relations with Hungary's central bank, which has played a vital role in the macro-economic transformation of the past three years.

Mr Orbán is no longer the radical he was in the late 1980s, when he set up Fidesz as an anti-communist youth movement. He understands the need to pursue pro-business policies, and he knows that international capital markets punish fiscal indiscipline. He also recognises that the European Union, which Hungary hopes to join within five years at most, will take a dim view if the economy spins out of control under his stewardship. All the more reason, then, for the incoming government to establish its credibility as soon as possible by making clear its commitment to continuing the good work begun by the Socialists.

Gerhard's generals

Four months to go before Germany's general election and there's plenty of light left in self-styled "old war-horse" Chancellor Helmut Kohl. But that hasn't stopped leading Social Democrats speculating about the government jobs they might get if their man, Gerhard Schröder, wins on September 27.

Mercurial SPD chairman Oskar Lafontaine could be finance minister, says the rumour-mill, or leader of the party in the Bundestag. But then again, the latter job could suit Rudolf Scharping, the present floor leader, whose name has been linked to at least four other jobs including the foreign, defence and interior ministries.

A man to watch is Franz Münterfering, the SPD's key campaign manager, who is thought to have eyes on the "Mr Exit" post of minister in the chancellery. Meanwhile, Herta and Paul Amirian is tipped for the justice ministry, continuing the tradition that holders of the post should have almost unpronounceable double-barrelled names.

Schröder must take some responsibility for the feeble speculation. He set the ball rolling a few weeks back when he selected trade unionist Walter Riester as his future labour minister and promised to name other key team members next month. The

excitement may even suit him if it deflects attention from his little local difficulty in Saxony-Anhalt, where the SPD today starts governing with the backing of crypto-communists.

Whatever happens, some SPD hopefuls are bound to be disappointed come the autumn. The one piece of speculation Schröder has confirmed is that he intends to govern with fewer ministers than Kohl.

Speak easy

Speculation of a different sort surrounds Kohl's decision yesterday to sack the genial Peter Haussmann, the official Bonn government spokesman, without giving a reason.

Haussmann may have been an ineffective propagandist but whose fault is that? Never part of the chancellor's inner circle, he was ill equipped to brighten the image of a tired regime.

Twin track

Charlotte Barshefsky will need all her lawyerly guile to combine her day job as Bill Clinton's trade representative with her new role chairing preparations for the World Trade Organisation's next big liberalisation talks.

Much of Barshefsky's experience has been in handling bilateral trade disputes, where US economic power enabled her to lay down the law. But all 132 WTO members have equal votes, and chairman

are expected to be impartial. It will be interesting to see how she copes if, say, political pressures back home require her simultaneously to turn up the heat on Japan over its rising trade surplus.

Things will get even trickier if Barshefsky has to lobby Congress to renew fast track authority, without which the US cannot clinch trade deals. Clinton's strategy is expected to rely on wooing US trade unions and environmentalists with promises of a bigger say in WTO decisions.

Many American "blue and green" see the WTO as a secretive capitalist conspiracy to promote the interests of ruthless multinationals. Developing countries think such lobbyists just want to erect barriers against their exports.

If Barshefsky can keep all these balls in the air – and still get the business done – she should be a shoe-in to head the WTO when Renato Ruggiero steps down at the end of next year.

Change of tack

Those campaigning for a Yes vote in Thursday's Danish referendum on the Treaty of Amsterdam need all the help they can get. So the pro-European Union camp were delighted with the grudging-as-it-gets backing of Mogens Mc-Kinney Møller, the 84-year-old shipping magnate who has long been Denmark's most prominent Euro-doubter.

The perils of artistic growth

The cost-cutting rationale prompting takeovers by music and publishing groups could be undermined by the internet and huge fees paid to rock stars and authors, says Alice Rawsthorn

Speaking volumes about a global market

Books sales

UK consumer expenditure on books current prices

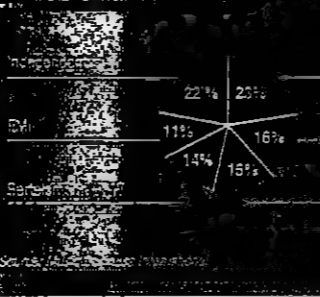


US total publishers' estimated net book sales Adult trade



Global music market

Markets shares (1996-1997) sales



Retail value (\$m)



Now, book and record producers are consolidating in the hope of redressing the balance of power.

In the US, Borders and Barnes expert publishers to pay for everything from authors' readings, to local newspaper advertising and prominent display positions. Returns of books, which publishers supply to retailers on a "sale-or-return" basis, reached record levels last year of 35 per cent for hardbacks and 50 per cent for paperbacks.

Even in the UK, record labels have to pay up to \$750 a week to add an album to the listening posts at Tower's Piccadilly Circus store, and it costs publishers around £2,500 for one of their titles to become "Waterstone's Book of the Month".

Bertelsmann is gambling that it can swing the balance of power back in its favour by adding Random House to its Bantam Doubleday Dell publishing subsidiary. Similarly, Seagram hopes that by significantly enlarging Universal Music, by far the smallest of the big six, it can remain competitive in the sluggish music market.

However, some of the problems faced by the big companies created by the first wave of mergers, seem unlikely to diminish for the second wave, and could even become worse.

The most striking is the escalation of the advances and royalties paid to star authors and musicians. As in the film business, they and their agents have exploited corporate rivalries by auctioning themselves off to the highest bidder.

In 1988, Barbara Taylor Bradford led the way in publishing by clinching a then unprecedented \$3m three-novel agreement with Random House, only to leave for HarperCollins four years later with a \$17m three-book deal. Last year, one Penguin subsidiary clinched a two-book deal reportedly worth \$60m with

Tom Clancy, and another signed a \$250,000 agreement for two novels by an unpublished 22-year-old.

"It's easy to get a feeding frenzy going for attractive books," says Derek John, director of A.P. Watt, the London literary agency. "And it becomes self-perpetuating, because if one author gets a good advance, others want more."

The big six music groups have slipped into the same inflationary cycle. Warner signed an \$80m deal to hold on to the rock group, R.E.M., and EMI agreed to an \$85m five-album contract to retain the singer, Janet Jackson. Not all these deals will be profitable, but the commercial fortunes of the companies involved are increasingly determined by

Big groups have proved clumsy at handling their top authors and artists

the popularity of a handful of star names, whom many big groups have proved clumsy at handling. For their part, authors and artists claim to feel neglected by large organisations. In 1992, Warner signed a \$100m contract with Prince, only for him to announce his "retirement" the next year. The singer then changed his name to an unpronounceable symbol, and etched "Slave" on his forehead in protest against Warner. When HarperCollins dropped the memoirs of last Hong Kong governor, Kong, Chris Patten, this spring, its UK publishing director and several authors quit.

"The challenge for big players in books or music is to fine-tune their relationships with creative people, while reaping benefits of

being big," says Mr Chernomont. "And we've seen lots of examples of it going wrong."

Even if companies get it right, there is a growing risk of their highly-paid stars going out of fashion. The latest albums by R.E.M., Janet Jackson and other previously bankable rock stars have performed poorly.

Many of the most successful new acts, including Oasis, the Prodigy and Björk, are signed to independent labels, not the big six. "We could say 'Sign with us and we'll give you a million pounds', but bands always seem to stick with the first independent who'd told them they were any good," says Paul Russell, president of Sony Music Europe, which has addressed the problem by investing in independents.

The same pattern is replicated in publishing. Blockbusters are no longer sure-fire money spinners, and some recent successes have been idiosyncratic titles from independent publishers.

One of last year's US bestsellers was Charles Frazier's *Cold Mountain*, a first novel thought likely to appeal to civil war buffs, which was published by Grove Atlantic Press, a literary imprint and has sold 1.8m hardbacks. Similarly, Debra Sobel's *Longitude*, a history of the chronometer's invention in 18th-century England, was rejected by 13 publishers before Fourth Estate, an independent UK house, bought it last year and sold 500,000 copies. "It's a quirky book," says Victoria Barnesley, managing director. "That's what people want to read these days."

Although the growth of conglomerates has been the most attention-grabbing characteristic of both music and book businesses in recent years, small, independent record labels and publishers have proliferated. Ms Barnesley says the consolidation in retailing has helped them.

"Once we'd have needed 22 reps on the road, which a company this size couldn't possibly afford," she says. "Now, you can have a few really good people making key calls."

Technological change could help them more. Thousands of digital jukeboxes and publishers already post songs and fiction on internet sites. Consumers can download music by unrecorded bands from Internet Underground Music Archive (IUMA), a Californian digital jukebox. Patricia Le Roy's *The Angels of Russia*, a novel published on the internet, has been accepted as a prospective nominee for this year's Booker Prize, the UK fiction award.

It will become even easier and cheaper for independents to operate in future as access to digital distribution systems, notably the Internet, increases.

"Will bands like Oasis sign to a record company in 10 years time?" says Alan McOee, chairman of Creation Records, Oasis's label. "Of course not. They'll be signed to themselves, and downloading music over the net. Because that's what excites 18 year-olds these days."

Seagram, Pearson and Bertelsmann could argue that the potential cost-savings from their recent acquisitions outweigh the risk of losing talent and consumers to the Internet, or other alternative forms of distribution. And Pearson can claim that size is an even greater advantage in the specialist area of educational publishing, because consumer taste is less mercurial and authors accept modest advances in return for long term royalties.

Even so, the digital threat, and idiosyncratic consumer taste, will hardly help Mr Bronfman and his peers to ensure that the second wave of music and books mergers avoids repeating the mistakes of the first.

OBSERVER

Financial Times

50 years ago

Changes At The Lagonda Car Company

When David Brown Tractors, represented by Mr. David Brown, purchased the goodwill and designs of the old Lagonda company last September, it was agreed that the company should change its name. The change of name has now been registered as the Moorgate Industrial Development Company, aircraft and motor manufacturers etc. At the same time, Mr. David Brown's interests registered a new private company, Lagonda Ltd., with a capital of £1,000 in £1 shares to carry on business as manufacturers and dealers in motor-cars, cycles, wagons, coaches and tractors. The new company has taken over the Lagonda saloon as designed by Mr. W.O. Bentley. Progress is being made in manufacture at the works of Aston Martin, a company which Mr. David Brown acquired last year. Ford in The Netherlands, Amsterdam, May 25. The Netherlands Ford Automobile factories of Amsterdam will shortly proceed to the assembling of British Ford cars. So far, these cars were imported here. The factories will be materially enlarged for the purpose.

Wheat and chaff

Italy has spent years trying to cement its place at the heart of Europe. But now it has found that membership has its disadvantages: Brussels has decreed that, for the first time, Italy must allow the import of soft wheat pasta.

For as long as anyone can remember, Italians have eaten the hard durum wheat version that is essential if pasta is to be cooked "al dente". Now the softer stuff – easy to over-cook, according to opponents, and awful to taste – will be in the shops from Parma to Palermo.

"The danger is that consumers won't know what they are buying," says Emanuele Piccarini, head of Italy's Consumer Union. What if the dough doesn't contain egg? What if it's full of additives?

Sounds like the first step down a slippery culinary slope that could end with processed buffalo mozzarella.

PACCAR Inc
Quality Transportation Solutions
DAF*Peterbilt*Kenworth*Foden
www.paccar.com

COMPANIES & MARKETS

TUESDAY MAY 26 1998

ARRIVA
Automotive Solutions
0345-58-58-40

INSIDE

Frankfurt, Amsterdam and Paris jump to record highs

Led mainly by the dollar, which came close to hitting a seven-year peak against the yen, Europe's equity markets continued to push deeper into uncharted territory. Frankfurt, Paris and Amsterdam all reached record highs. Page 32

Sanander steals march on rivals

Barco Santander has stolen a march on Spanish banking rivals with plans to securitise P200bn (\$1.3bn) of commercial paper and sell them as bonds to international institutions. Page 24

Seoul bourse hits 11-year low

Heavy selling by local investors sent Seoul to an 11-year low. A 6.8 per cent decline for the benchmark index marked the first day of trading under the stock market's new wider share ownership structure. The composite index closed off 24.15 at 331.90, extending the decline since last Thursday's announcement of a 3.8 per cent contraction in first-quarter gross domestic product. Page 32

Cifra defends merger with Wal-Mart

Cifra, the Mexican retailer, has insisted its takeover by Wal-Mart of the US will produce economies of scale. Yet Cifra's operating expenses climbed and profit margins slumped after Wal-Mart bought a controlling stake last September. Page 20

Computer boom set to continue

Although some computing services groups look overvalued, analysts say the market will boom for the next three years and support the premium ratings that many in the sector trade on. Page 21

Estrada victory prompts about-turn

The election of Joseph Estrada as Philippine president has caused many businessmen to back-track on comments that an Estrada presidency spelt disaster. But serious doubts remain. Page 18

Glits outlook hard to predict

The recent belief that yields on UK government bonds and German bunds would converge seems over-optimistic. With bewildering signals from analysts, the glits outlook is hard to predict. Page 24

COMPANIES IN THIS ISSUE

Alford	20	Ionian Bank	3
American Airlines	1	Jama Mergers	17
Andri Pharmaceutics	17	Jorh	18
Astra	17	Komercij Banka	19
Barco Santander	24	Kvaerner	17
Bentelmann	16	L&S	19
Besq	19	LTCC	19
Bonten	1	Mitsubishi Trust	18
Bouygues	19	National Trust	18
British Airways	1	National Power	21
CAW	19	Nippon Credit Bank	18
CLT-Ute	19	Old Mutual	20
CM	19	PDFA	21
CSFB	19	PONSA	5
Caspian Pipeline Con	19	PT Telkom	17
Caspio Sportstains	19	Pekao SA	18
Caspio Radio	19	Pratt & Whitney	19
Chugai	18	PowerGen	21
Chuo Trust	18	RNC	21
Cifra	20	Relatlon Purina	20
De Boer Unigro	20	Ride-Royce Motors	1
Dev Bank Singapore	20	SPT	19
Dornier	20	Saab Automobile	19
Duracell	19	Sakura	18
EI-Aquafina	19	Samsung Motors	18
Eveready	19	Shionogi	18
Eveready	19	Siberia	19
Financial Security	17	Singapore Telecom	18
FirstRand	18	Subaru of America	18
Ford Motor	18	Sumitomo Trust	18
France Telecom	18	Sodeleira	19
General Motors	18	Telcel	17
Gangnam	17	Thames Water	21
Gillette	20	Tokio Marine & Fire	17
Glymed	20	Toshiba	17
HSBC Securities	21	Toyoko Trust	18
Hess Oil	18	VW	1
IBJ	18	Vendex	20
IPS	18	Vickers	1
Indosat	17	Wal-Mart	20
Interkontal	18	Yamanouchi	18
		Yasuda Trust	18
		Yuko	18
		ZPS	18
		Zeneca	17
		Zenith	18

Test case sought for pan-Europe pension

By Jane Martinson in London

Zeneca and Kvaerner argue court ruling has opened door to cross-border fund

Two multinational groups and a leading law firm are looking for support for a test case which could establish the first pan-European pension fund.

Pensions experts from Zeneca, the UK-based pharmaceuticals company, Kvaerner, the Anglo-Norwegian engineering group, and Eversheds, the law firm, believe that a ruling last month by the European Court of Justice has helped open the door to companies wanting to set up a single pension fund across Europe. They

say such a fund would lower costs and improve portability for staff across Europe.

In a letter to be sent out this week, the three groups will invite up to 50 multinationals to attend a meeting in London at the end of next month to discuss the issue.

Robin Ellison, head of Eversheds' pensions division, said preliminary legal opinion suggested there was an opportunity to establish a pan-European scheme. "There is a

general feeling that there ought to be a test case," he said.

Ray Martin, head of pensions at Zeneca and vice-chairman of the European Federation for Retirement Provision, said: "We think it may now be possible to have a pan-European pension fund and we want to explore the options."

Companies at the meeting will be asked to provide financial support for any legal action, which could go before

the ECJ. Mr Ellison said the cost of any case could be "quite substantial". The two companies are unlikely to proceed on their own.

A test case could involve a company setting up an Irish pension fund for a British employee. This would fall foul of tax regulations in the UK and would provoke complaints from the Inland Revenue.

Mr Ellison said several cases over the past few years and, in particular, the ECJ ruling last

month, have made the defence of such action possible.

The ECJ judgment case offered support to the view that tax discrimination between member-states is illegal under European Union law.

The case involved Jessica Safir, a Swedish woman who chose to buy life assurance from Skandia in England. She won her fight against the Swedish authorities, which imposed a tax on the product

as it was not bought domestically. However, the wording of the judgment was seen as too specific to Sweden to help multinational companies directly.

The UK and Ireland could provide the setting for any test case because of the similarity of their pension systems. However, the aim of any case would be to allow multinationals to run one fund across several countries.

Any change is set to be contested by member states, who fear a loss of tax revenues if pension funds are set up outside their jurisdiction.

CARDOSO GOVERNMENT'S PRIVATISATION PLANS FEEL EFFECTS OF ASIAN CRISIS

Brazil's state sell-offs may face shortage of financing

By Geoff Dyer in Rio de Janeiro

Brazil's privatisation plans may face a financing shortage as the government seeks to raise more than \$25bn over the next few months, senior bankers have warned.

Several leading commercial banks in Brazil said financial markets might not have recovered sufficiently after last year's Asian crisis to cope with the planned privatisations.

During July and early August the government plans to sell companies with a potential value of more than \$25bn. They include Telebras, the telecommunications group and the largest company in Latin America in terms of market capitalisation, and Geresul, the first of five

central to the government's economic policy as a measure of its commitment to reform and as a source of capital.

However, bankers believe if financing proves tight the government will have to accept a less ambitious timetable or reduced prices for the assets.

"There is a huge demand being placed on the banking market," said Floris Deckers, Latin America director at Dutch banking group ABN Amro.

Banks were also being asked to lend to a number of large project financings to support the heavy investment plans of the private sector and to re-finance privatisations from last year. "It is not out of the question that there could be a crunch," he said.

"The banking market is constrained," said Octavio Castello Branco, managing director at JP Morgan in Sao Paulo. "There are not that many banks with the capacity to take part in these huge financings."

In particular, bankers said the small regional banks, which last year were significant participants in the syndicated loan market, had sharply



Brazil's president Fernando Henrique Cardoso wants privatisation completed before the campaigning for October's general election. AP

scaled back exposure to Brazil after the Asian crisis.

Sentiment in the capital markets had recovered more strongly since the crisis. However, there remained reluctance among institutions to invest in less well known Brazilian corporations.

A financing shortage would advantage foreign bidders, who were prepared to carry

debt on their balance sheets to finance acquisitions.

Jose Plo Borges, vice-president of the National Development Bank which is managing the privatisations, said government measures for the sale of Telebras, such as allowing for payment in instalments, would ease financing pressure.

Brazil privatisation, see survey

Indonesia to go ahead with privatisations

By John Ridding in Hong Kong and Sander Thomas in Jakarta

Indonesia will resume the selection of investment bank advisers for its privatisation programme this week in Singapore, signalling its determination to put economic reforms back on track after the political turmoil of recent weeks.

International investment banks will submit proposals on Thursday and Friday for advisory roles in the privatisation programme of 12 companies, including the sale of stakes in PT Telkom, the long-distance telecommunications monopoly, and Indosat, the satellite operator.

In spite of the depressed investment sentiment surrounding Indonesia's crisis-hit economy, many of the big international investment banks are seeking a role. Merrill Lynch, Morgan Stanley, and Goldman Sachs are among the candidates, as is Jardine Fleming, the regional investment bank. "Everyone who has an aspiration of doing business with Indonesia in the future has to turn up," said one investment banker. "There is a big question, though, as to whether some of these businesses are sellable."

While PT Telkom and Indosat are seen as relatively attractive, more difficult disposals include Jasa Marga, the toll road operator, and several Indonesian mining companies. Investment analysts say the government will have to be

lenient on pricing and consider taking its share below 50 per cent in some of the companies, something it has been traditionally reluctant to do.

The value of many of the companies on offer has fallen sharply as a result of Indonesia's economic crisis. When PT Telkom was floated in 1995, with the sale of a 25 per cent stake, it had a market capitalisation of almost \$8.5bn. That has fallen to less than \$4bn.

Analysts say the sale of the next tranche, expected to be about 25 per cent, is likely to be sold to an international telecoms company.

The sales are part of an agreement with the International Monetary Fund, which has put a \$43bn rescue package on hold pending a reassessment of Indonesia's economic prospects.

Privatisation proceeds are seen as vital in bolstering foreign currency holdings and easing pressure on the government budget. But industry commentators expressed caution about demand. "This is going to be a hard sell," said one Hong Kong fund manager. "There are big questions about the management of some of the companies, not to mention the outlook for the economy."

Other companies for sale include Semen Gresik, the cement company, Tambang Timah, a tin mine, and Anaka Tambang, a nickel mine.

Indonesia's legacy, Page 14

Toshiba blames 89% profit fall on Asian crisis

By Paul Abrahams in Tokyo

Toshiba, Japan's second largest electrical machinery manufacturer, blamed an 89 per cent fall in annual profits on the Asian economic crisis, the highly competitive personal computer market and weak demand for consumer products.

Consolidated net profits at the group - which makes everything from nuclear power stations to televisions - fell from ¥767bn (\$515.4m) to just

¥7.3bn for the year ending March 31.

But Kiyoshi Shimagami, managing director, said profits would rebound this year to ¥40bn, mainly because of an improved performance at the personal computer business.

The group also said it would reduce its board from 33 to 12 members in order to sharpen decision making and give greater autonomy to individual businesses.

"These results were in line with expectations, and the

forecasts are achievable," said Steven Myers, industrial electronics analyst at Jardine Fleming in Tokyo. The shares closed down ¥6, or 1 per cent, at ¥583.

Turnover slipped 1 per cent to ¥5,458bn. Although income before taxes plunged from ¥1,255bn to ¥18bn, the tax charge fell only 65 per cent, from ¥77bn to ¥24bn, as Japanese regulations do not allow for consolidated taxation. This means the company cannot receive a tax credit when sub-

sidaries make a loss.

Operating profits at the electronic devices and materials division more than doubled from ¥18bn to ¥40bn, on sales up 4.6 per cent at ¥1,341bn.

Unlike most manufacturers, Toshiba's semiconductor operations did not fall into loss, although sales slipped from ¥900bn to ¥870bn. The company has changed its emphasis from commodity products to higher-margin specialised chips. This year, the group plans to increase capital

spending 18 per cent to ¥400bn, of which semiconductor-related investment would be 18 per cent lower at ¥140bn.

Toshiba said operating income from the information and communications systems division - including personal computers - had collapsed from ¥140bn to ¥48bn, on sales up 1.7 per cent at ¥2,184bn. The division had been hit by weak pricing in the PC market. In unit terms, computer sales rose 1 per cent, but by value they fell from ¥740bn to

¥680bn. In the current year, it expected to sell ¥770bn of personal computers - about 3.2m units. To reduce stocks, it would accelerate its move to build to order.

The consumer products division had a disastrous result, with losses widening from ¥15bn to ¥45bn on sales down 10 per cent at ¥1,040bn. The company blamed lower volumes and price erosion.

Analysts praised the company for cutting inventories 6 per cent to ¥1,001bn.

Astra sues US rivals to protect anti-ulcer drug patent

By Tim Burt in Stockholm

Astra, the Swedish pharmaceuticals group, has launched lawsuits against two US rivals in an attempt to bolster patent protection for Losec, the world's best-selling prescription drug.

The company, which depends on Losec for almost 50 per cent of its SKr45bn (\$6.85bn) annual turnover, said yesterday it was suing Andrx

Pharmaceuticals and Genpharm, both generic drug manufacturers, for allegedly infringing patents over the anti-ulcer treatment.

The legal move marks the start of a campaign by Astra to preserve its grip on Losec sales in the US - where sales of the drug jumped 42 per cent in the first quarter of this year - before its North American substance patent expires in 2001.

Astra said it was seeking

injunctions against Andrx and Genpharm in lawsuits filed separately in Fort Lauderdale and New York, to stop the companies selling and marketing generic versions of Losec.

The lawsuits follow applications by Andrx and Genpharm to the Food and Drug Administration for permission to market omeprazole, the generic name for Losec.

Under FDA regulations, the applications are put on hold

for 30 months until the legal dispute is resolved.

Although Astra admitted that its substance patent would expire at the turn of the century, it said the company had further patents covering the formulation for Losec extending up to 2014.

Industry analysts, who had expected such a legal action, pointed out that Glaxo Wellcome of the UK had failed in a similar legal attempt to protect

patents over Zantac. Its blockbuster anti-ulcer treatment.

"Astra is going to have a fairly tough job defending these patents; it depends how obvious the infringement is," said Johan Strandberg, pharmaceuticals analyst at Deutsche Morgan Grenfell in Stockholm.

Other analysts said that profits at Astra - which markets Losec jointly with Merck in the US - would be signifi-

cantly enhanced for each year that it managed to maintain its exclusivity over the drug.

In the first quarter of this year, sales of Losec rose 29 per cent from SKr4.8bn to SKr6.2bn, underpinning increased group pre-tax profits of SKr3.94bn - up from SKr3.46bn in the first three months of 1997.

Astra's most commonly traded A shares yesterday rose SKr3.50 to SKr163.

FLOATING

THOMSON Britannia KPMG HOLIDAY HOMES THOMSON INTERNATIONAL

Congratulations to the Thomson Travel Group on their successful listing on the London Stock Exchange. We welcome all their shareholders to the world of share ownership. To find out what opportunities a listing on the London Stock Exchange could provide for your company call our information service on 0171 797 1372 quoting FT/0598.

London STOCK EXCHANGE

www.londonstockex.co.uk London Stock Exchange, Old Broad Street, London EC2N 1HP Fax: 0171 410 6861

COMPANIES & FINANCE: ASIA-PACIFIC

FINANCE TOTAL LOSSES AT THE COUNTRY'S TOP 18 INSTITUTIONS HAVE RISEN TO Y4,350bn

Bad loans hit 10 of Japan's largest banks

By Gillian Tett in Tokyo

Ten of Japan's largest banks yesterday announced a collective pre-tax parent loss of Y1,290bn (\$9.5bn) in fiscal 1997 due to a wave of bad loan provisions.

The total loss reported by the country's top 18 banks has risen to Y4,350bn, after the banks collectively made provisions for almost Y10,000bn of bad loans.

The banks reporting yesterday were Industrial Bank of Japan, Long Term Credit Bank, Nippon Credit Bank, Mitsubishi Trust, Mitsui Trust, Chuo Trust, Sumitomo Trust, Yasuda Trust, Toyo Trust and Sakura.

They all insisted that they

would return to profit this year, and claimed that the poor results showed they were clearing away the mountain of bad loans that has dragged Japan's economy down for seven years. Most of these are property-related and were caused when the 1990s property bubble burst.

The banks that reported yesterday also admitted their operating profits would fall this year as the business climate became more competitive because of "Big Bang" financial deregulation.

Analysts warn the banks appear ill-equipped to cope with any more bad loans that may arise, predicting

the weakest institutions would take several more years to tackle their remaining problem loans.

James McGinnis, of Dresner Kleinwort Benson, said: "The banks can't trade their way out of the bad loan problem and their hidden equity gains are almost exhausted. If the government does not step in with more help there could be big trouble."

The banks' estimate of problem loans has risen sharply because of the introduction of tighter accounting standards. These new standards yesterday pushed the level of problem loans at IBJ up by 51 per cent to Y1,570bn and at NCB up by

38 per cent to Y1,730bn.

IBJ made provisions of Y633.8bn for bad loans during the year, pushing it into a Y367.7bn pre-tax parent loss against a Y48.5bn profit the previous year. Operating profits fell 3.8 per cent to Y3,036bn.

Sakura, a commercial bank, revealed a Y417bn pre-tax loss, compared with a Y59bn profit the previous year.

However, five of the 10 banks that reported yesterday recorded a tiny profit. Four were trust banks: Mitsubishi Trust showed a pre-tax profit of Y4.4bn, some 11 per cent lower. Chuo Trust lifted its pre-tax profit 76 per cent to Y9.14bn, while Toyo Trust

reported parent pre-tax profit of Y15bn, some 8 per cent lower. Mitsubishi Trust's profit of Y5.67bn was down 93 per cent on the year.

Nippon Credit Bank reported a pre-tax profit of Y16.4bn, compared with the Y350bn loss it incurred in 1996 when it made large bad loan provisions. Long Term Credit Bank, by contrast, fell into a Y300bn pre-tax loss, against a Y18.1bn pre-tax profit the previous year.

Analysts argued that some of the weaker banks were only reporting profits because they were tackling bad loans at a slower pace than the strongest groups. "Not all the banks feel that

they can make as big bad loan write-offs as the stronger ones," said Brian Waterhouse, of HSBC Securities.

Yasuda Trust reported a Y15bn loss, compared with a pre-tax profit of Y1bn the previous year. The trust bank, which is closely linked to Fuji, admitted that its problem loans were Y800bn.

Sumitomo Trust, often considered one of the stronger trust banks, recorded a pre-tax loss of Y33.5bn, compared with a profit of Y16bn.

The banks yesterday also released data on their capital adequacy ratios, which showed that all claim to meet the internationally required capital adequacy ratio of 8 per cent or more.

Corporate about-turn as Estrada sweeps to power

Many in Manila's business community who believed him unsuitable are now showing support for the new president, writes Justin Marozzi

It was an unusual, if telling picture: Joseph Estrada, the populist Philippine vice-president long lambasted by the business community as incompetent on economics and generally unsuitable for the presidency, surrounded by nods of approval from blue-blooded businessmen such as Jaime Augusto Zobel de Ayala, president of Ayala Corporation, the country's largest listed conglomerate.

Equally remarkable were the flattering words from previously sceptical business leaders such as Alberto Fenix, president of the Philippine Chamber of Commerce and Industry.

Already dubbed "The Revenge of the Masses" and "The Return of the Marcos Cronies", Mr Estrada's election as president - to be confirmed by official results next month - has caused businessmen to perform an abrupt volte-face, reversing the previously held orthodoxy that an Estrada presidency spelt disaster.

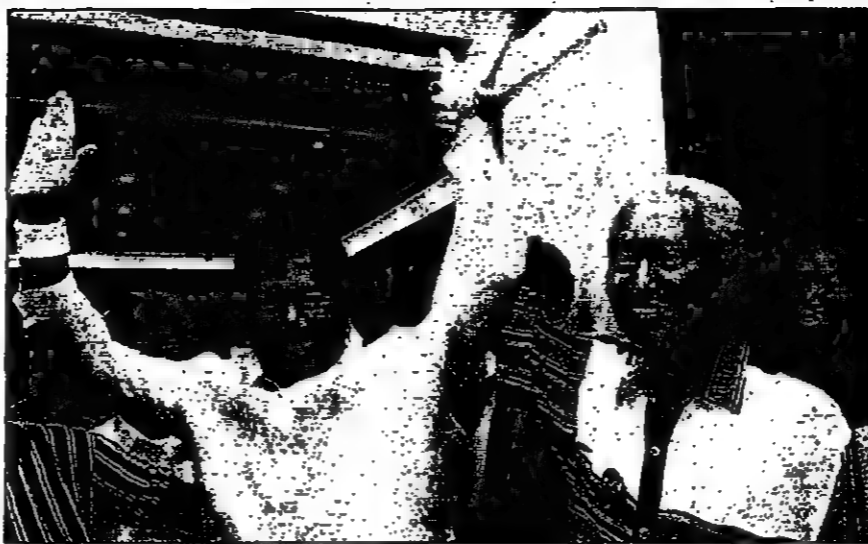
Mr Estrada's initial pronouncements have been encouraging, say businessmen. While unveiling last week a 10-point plan for his first 100 days in office, the vice-president said: "In order to succeed, you must enjoy the least amount of regulation and the greatest number of opportunities. You must be able to rely on consistent commitments and policies from your government."

But serious doubts remain. Mr Estrada's promise to discontinue the Presidential Commission on Good Government, the body set up in 1986 by former president Cori Aquino to recover ill-gotten assets amassed during the Marcos era, set off alarm bells. Will the move mean legitimising the years of plunder by former cronies of the late president Ferdinand Marcos? As the head of one foreign bank remarks: "There should be alarm that a lot of ex-Marcos cronies are back. The question is what is the character of Mr

Government sequestration has long been acknowledged as a serious constraint on the group because it has prevented much-needed capital-raising exercises. Mr Cofu-angco and related business interests claim the 48 per cent is theirs.

But the fear is that the new administration will look too kindly on Mr Cofu-angco's ownership dispute. Assuming some shares are freed up, there is considerable interest overseas in buying into or taking over the ailing San Miguel.

Anheuser-Busch, the US brewer, recently joined First Pacific, the Hong Kong-based conglomerate, on the



Unknown quantity: Joseph Estrada's contradictory statements cloud the picture

list of potential buyers.

An Estrada administration will also affect the corporate sector by selling off remaining government stakes in companies such as Meralco, the electricity distributor (48 per cent), Philippine National Bank (46 per cent), and Philippine Airlines, majority owned by the Chinese-Filipino tycoon Lucio Tan (20 per cent), says Edgardo Espiritu, who will become finance secretary.

The fiscal position is tight, with the International Monetary Fund forecasting a public sector deficit of 28.7bn pesos (\$740m).

Analysts welcome the prospect of increased liquidity in Manila. Last December, Spain's Union Electrica Fenosa said it wanted to increase its stake in the Philippine utility from 4 to 10 per cent.

PNB, the laggard among the top tier of domestic banks, has also been the subject of market speculation of buy-ins from, among others, Metro Pacific, the Philippine flag ship of First Pacific. Philippine Airlines, which is set to record its fourth consecutive year of losses in 1998, said last month it was in talks with international airlines, including Northwest Airlines, American Airlines, British Airways and Lufthansa, to inject equity.

"There's tremendous interest and undiscovered value in some of these companies," says John Mangum, director for portfolio management at IB Ginnex Securities, a local brokerage. "With PAL, you have the advantage of a joint venture with Lucio Tan. With Meralco, a highly profitable company with a

franchise monopoly, it's a joint venture with the Lopez family."

Mr Espiritu says the privatisation of National Power Corporation, the country's largest utility, will be a priority; international power groups have already expressed interest. The government's 40 per cent stake in Petron, the country's largest petrol group, is less likely to be sold because previous governments have used it to contain oil price rises: the populist Mr Estrada is not expected to act differently.

Much remains in the dark and analysts point to Mr Estrada's contradictory statements that further cloud the picture. On the same day he delivered his comforting sermon to business leaders, Mr Estrada was quoted in a local newspaper saying: "Business will not be allowed to dictate under an Estrada presidency." All that seems certain for now is that the apocalyptic prophecies of some businessmen appear vastly overstated.

Samsung, Ford talks collapse

By John Burton in Seoul

Samsung Motors, the newest and smallest of South Korea's four carmakers, yesterday said negotiations with Ford Motor, of the US, on a strategic alliance had collapsed.

"Negotiations on the joint venture have virtually ended in failure, but we can always resume talks when conditions are right," said Lee Dae-won, Samsung Motors vice-chairman.

Samsung had proposed that Ford produce cars at its new plant in Pusan and co-operate on sales and financing in Korea's highly protected market, in return for an equity investment by the US carmaker. But Ford concluded that there was little prospect of growth in Korea, Mr Lee said.

The failure of the talks is a setback for Samsung, which began car production in

March and is expected to suffer large losses because of the nation's recession.

Samsung has suggested that the industrial group might be forced to abandon its \$6bn car project unless it can attract overseas investment and be able to acquire bankrupt Kia Motors, Korea's third largest carmaker.

Samsung said it hoped to continue talks with Ford on a possible joint takeover of Kia. "The memorandum of understanding [with Ford] on co-operating in the reconstruction of the Korean car industry is still effective. We are continuing talks on this matter," said Mr Lee.

Ford is Kia's biggest shareholder with a 16.9 per cent stake. Kia last week claimed that Ford was considering acquiring a 51 per cent stake, along with Kia's creditor banks, to protect the car group's independence.

Japanese drugs groups show falls

By Paul Abrahams in Tokyo

Results from Yamanouchi, Shionogi and Chugai, the Japanese drug companies, confirmed the continuing problems facing the industry, with all three showing lower net profits for the year ending March 31.

Government-imposed price cuts and falling volumes came on top of the enforced withdrawal of some products on safety concerns or doubts about their effectiveness.

Profits at Yamanouchi, one of the country's biggest drug companies, collapsed 85 per cent to just Y6bn (\$44m) on sales up 5 per cent. Most of the fall was due to its decision to write off Y15bn of goodwill associ-

ated with its acquisition of Shikoku, a US health food group. However, it benefited from a change in tax regulations that boosted net income by Y24.7bn.

The group also lost sales and profits after the decision by Novo Nordisk, of Denmark, to market its human growth hormone on its own in Japan, said Shigen Matsuura, drugs analyst at SBC Warburg in Tokyo.

In addition, the government insisted it should withdraw Elen, an Alzheimer's product, because of lack of evidence that it was effective. The drug had sales last year of about Y9.5bn, according to Morgan Stanley Dean Witter.

Shionogi suffered from the withdrawal of Hoechst Marion Roussel's Triludan,

NEWS DIGEST

TELECOMMUNICATIONS

Singapore group downbeat despite 12% advance

Singapore Telecom, the national telephone company, reported a 12 per cent rise in net profit to S\$1.89bn (US\$1.16bn) for the year ended March 31. The group expects slower growth this financial year, noting that its main businesses are dependent on the economic conditions in Singapore and the region, now embroiled in crisis.

The company believes that growth in international telephone revenue will fall because of lower traffic growth and planned rate cuts. It is working on an alternative budget service which will provide lower grade service at cheaper prices to encourage usage. Analysts are generally unconcerned with expectations of slower growth this financial year for Singapore's top companies as they consider them well-managed and solid corporations.

Singapore Telecom is working hard to cut costs and maintain its competitiveness, particularly because the authorities have moved forward its exclusive right to basic telecommunications services to 2000, instead of 2007 under the original licence. The company has already lost its monopoly over the mobile market, yet Singapore Telecom said these subscribers continued to register for growth.

Group borrowings repayable within one year amounted to S\$66.3m, and borrowings repayable after one year were S\$100.1m. Revenue rose 12 per cent to S\$4.94bn. Earnings per share increased 12 per cent to 12.37 cents. The directors recommend a final dividend of 5 cents a share, up from 4.5 cents. Sheila McNulty, Singapore

CARS

Fuji Heavy Industries falls 22%

The combined costs of a model recall, losses on equity holdings and an increase in the effective tax rate lowered consolidated net earnings at Fuji Heavy Industries in the year ended March. The Japanese company, which markets its cars under the Subaru name, reported after-tax consolidated profits down 22 per cent, from Y38.5bn to Y30.7bn (\$226m). Sales were up 6.6 per cent at Y1,304bn.

Subaru of America, the company's US subsidiary, did particularly well thanks to the success of the Legacy sedan car and newly launched Forester sports-utility vehicle. US sales accounted for 47.8 per cent of turnover. Domestic turnover, by contrast, fell 16.2 per cent to Y524bn, amid sluggish demand.

A recall of 1,47m cars in October 1997 cost the group an estimated Y4bn, according to Morgan Stanley Dean Witter. The tax charge quadrupled to Y16bn.

In the current year, the company forecast a slight increase in net profits to Y18bn, on sales down 15 per cent to Y890bn. The dividend would be unchanged at Y7.

The group's well-established position in the US would continue to help profits, analysts said. "They have not only restructured considerably, but unlike the other auto makers Nissan and Toyota, they have long ago reached into the niche markets in compact and sports utility vehicles in the US. They have a product that is very affordable and very attractive, and they should continue to have strong sales," said Noriaki Hirakawa, analyst at Morgan Stanley Dean Witter.

The stock closed up 1.44 per cent, or Y9, at Y933 in a falling market. Alexandra Harney, Tokyo

INSURANCE

FSA, Tokio Marine in link-up

Financial Security Assurance, the US-based insurer, has tied up with Tokio Marine and Fire, Japan's largest property and casualty insurer, to offer joint products for the securitisation market.

The two companies yesterday said they would establish an operational joint venture to provide insurance for asset-backed securities in Japan.

The venture is the first of its kind in Japan, Richard Holzinger, Asian regional head of FSA, said. "Although there might have been some looser alliances before, this is the first of this type we know about," he said.

The two companies said the new venture illustrated their faith in the potential growth of Japan's securitisation market. "We think that this market could grow to be the second biggest in the world," Mr Holzinger added.

The asset-backed securities market is very underdeveloped in Japan compared with countries such as the US. However, the government is trying to encourage the market to develop as part of its Big Bang financial deregulation.

In the coming months it will introduce new legislation to make it easier to establish special purpose companies for issuing asset-backed securities.

It is also considering introducing tax reforms to make it easier for banks to securitise property portfolios.

Gillian Tett, Tokyo

ELECTRONICS

LG takes full control of Zenith

South Korea's LG group will take full control of Zenith, the US television maker which it acquired in 1995 as a majority shareholder, through a debt-for-equity swap and new capital under a bankruptcy reorganisation plan.

LG will provide \$60m in fresh funds to Zenith and convert \$200m in debt for equity. Another \$210m of claims held by LG will be exchanged for Zenith manufacturing assets in Mexico and secured notes due in 2008.

Zenith will seek buyers or partners for its colour TV and computer terminal tube plant in Mexico Park, Illinois and its wood cabinet and projection-TV plant in Juarez, Mexico. LG will supply televisions and other products that will be under the Zenith brandname.

LG acquired a 57.7 per cent stake in Zenith three years ago to obtain technology in such areas as digital television. LG said Zenith will concentrate on the development of new products as it sheds most of its manufacturing operations.

LG has already invested an estimated \$750m in Zenith, which has reported only one profitable year since 1985.

John Burton, Seoul

ABSAGROUP

ABSAGroup Limited Reg No 86703934/06

Audited results

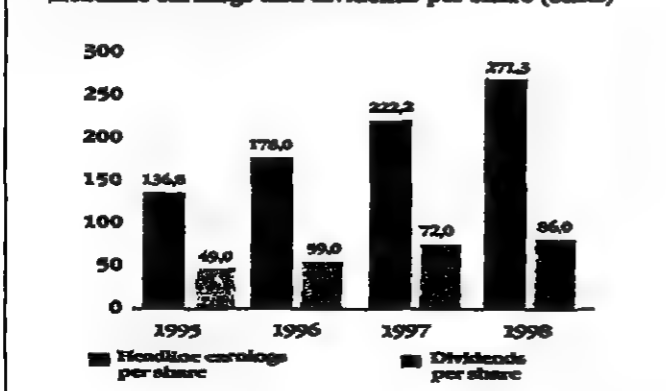
for the year ended 31 March 1998

Headline earnings up 28,3%

Headline earnings per share up 22,1%

Advances up 16,3%

Headline earnings and dividends per share (cents)



	1998	1997
Headline earnings (R million)	1 692	1 319
Income attributable to shareholders (R million)	1 598	1 319
Headline earnings per share (cents)	271,3	222,2
Earnings per share (cents)	256,2	222,2
Dividends per share (cents)	86,0	72,0
Return on average equity (%)	18,9	17,7

"The Group is implementing some far-reaching strategic initiatives and I believe it is well positioned to grow its local and international business, improve all important operational ratios and produce further satisfactory results for its stakeholders."

Danie Cronje - Group Chairman

This information is also available on our website at <http://www.absa.co.za/tiff>

All financial figures are reflected in South African currency.
For a copy of the Group's annual report, which will be published on or before 30 June 1998, contact the Group Communications Division, ABSA Group, PO Box 260 593, Ennais, 2023, South Africa. Telephone (2711) 350-6008 Fax (2711) 350-6027

launches low-cost phone subsidiary

recovery at B...

talks called off

for Pekao IPO

plans flotation

to raise \$220m

COMPANIES & FINANCE: EUROPE

NEWS DIGEST

FRANCE

PPR launches low-cost telephone subsidiary

Pinault Printemps-Redoute, the French retail group, yesterday launched a mass-market telephone company designed to offer low-price calls and a range of related services. The subsidiary, called Kartel, is not linked to any one telecommunications operator, but plans to buy phone time from different suppliers with the aim of offering rates 10-70 per cent lower than those of France Telecom.

The service, which has been approved by the French telecoms regulator, has been made possible by the liberalisation of the national telephone network at the start of this year. Customers will be able to buy pre-paid cards through its retail network as well as Shell petrol stations and Casino supermarkets.

Separately, Bouygues, the French utilities group, is studying the possibility of buying back a 20 per cent stake in Bouygues Telecom, its mobile telecoms subsidiary, from Cable & Wireless of the UK. The action comes in spite of pressure from Vincent Bofort, the French financier who has built up a significant minority stake over the past few months in Bouygues, for the group to withdraw from the telecoms sector. Cable & Wireless has expressed its intention to sell the investment, which it values at FF4.5bn (\$784m). Bouygues has pre-emption rights and may consider buying back all or part of the stake, partly in an effort to limit an increase in the stake held by its partner Telecom Italia. Andrew Jack, Paris

ISRAEL

Profits recover at Bezeq

Bezeq, Israel's state-controlled telecommunications company, yesterday reported a turnaround in net profits for the first quarter. Net income slipped from Shk149m for the same period last year to Shk129m (\$35.5m) but was well ahead of the Shk43m for the fourth quarter last year.

Net losses for all of 1997 were Shk222.7m on sales of Shk8.7bn, after a Shk1bn charge for restructuring. Revenues for the latest quarter slipped from Shk2.25bn to Shk2.15bn, with the decline attributed to the introduction of competition in international telephone calls.

Yesterday's results coincided with an agreement between the communications ministry and Cable and Wireless allowing the UK telecoms group to raise its stake in Bezeq from 10 per cent to 20 per cent in two stages. In the first phase, C&W will be able to acquire 3 per cent immediately. Within 18 months, it can raise its stake to 20 per cent if the government opts not to call a public tender for a strategic partner. If it does, C&W will have to wait a further 18 months but will be able to compete for the tender.

The agreement ends nearly two years of wrangling, with Limor Liraz, the communications minister, opposed to C&W increasing its stake for security reasons. The government holds a 60 per cent stake in Bezeq. Once options for bonds, warrants and convertible securities are exercised by 2001, its stake will be reduced to 54.6 per cent. Bezeq wants to sell a further 20 per cent, probably in 1999. Judy Dempsey, Jerusalem

RUSSIA

Oil merger talks called off

Yuko and Sibneft of Russia yesterday confirmed they had called off discussions on a merger that would have created the world's largest oil group.

Russia's worsening financial situation, which has been compounded for the oil sector by falling prices for crude, complicated the alliance plan. The management teams at Yuko and Sibneft also proved difficult to combine. The collapse of the merger raises questions for Elf-Aquitaine, the French oil company. Elf had agreed to buy 5 per cent of Yuko, as the merged company was to be called, for \$528m. One possibility for the French company may be to purchase instead a 12 per cent stake in Sibneft for the same price. Chrystie Freeland, Moscow

POLAND

Price set for Pekao IPO

The Polish government yesterday priced Pekao SA, one of the country's largest banks, at between 38 zlotys and 45 zlotys a share in an initial public offer scheduled for next month. The range values the bank at \$1.4bn-\$1.8bn, and the offering will see 15 per cent of the equity sold to domestic retail and foreign institutional investors.

The offer, which opens on June 15, will be followed by the sale in autumn of a 35 per cent stake to a foreign strategic investor which will be expected to recapitalize Pekao SA and expand the bank's activities to other east and central European markets. CSFB is advising the treasury on the privatisation.

Foreign institutional investors are to be offered 60 per cent of the Pekao SA offering, with the remaining stock going to domestic institutions and retail investors. Retail investors are being offered a 5 per cent discount on the final offer price, which will be announced on June 10. The shares are to be allocated on June 20. Christopher Bobinski, Warsaw

FISH PROCESSING

Domstein plans flotation

Domstein, Norway's second largest fish processing and seafood group, is planning a stockmarket flotation to help fund an aggressive expansion strategy. The family-owned company, which operates five processing plants and 15 fish farms, is expected to be valued at about Nkr500m (\$67m) on its market debut later this year or early in 1999.

Rolf Domstein, chief executive, said yesterday that proceeds from the flotation would be used for "vertical integration" involving further bolt-on acquisitions of fish farms and shares in fishing vessels.

The company last year reported underlying profits of Nkr40m on sales of Nkr1.5bn, making it the country's largest fish and seafood operation after Norway Seafoods, a subsidiary of the Aker RGI holding group. Tim Burt, Stockholm

NATURAL RESOURCES

Südelektro to raise \$220m

Südelektro, the Swiss natural resources group, is raising \$220m in new equity to refinance its recent acquisition of Consolidated Metallurgical Industries (CMI), South Africa's third largest ferrochrome producer.

Since 1992 Südelektro has spent nearly \$700m on eight acquisitions culminating in its \$215m purchase of CMI, which has established it as the world's largest ferrochrome producer. The group last raised equity in a SF150m (\$102.5m) one-for-two rights issue in 1994. Since then, its share price has more than doubled, revenues have risen fourfold to more than \$400m, and its gearing has risen to more than 100 per cent.

Südelektro is raising the equity in a combined rights issue and global offering of up to 35 per cent of its issued share capital. It will make a 1-for-5 rights issue of 180,000 shares for existing shareholders, at a price of SF1.050, and issue another 135,000 shares to international investors at close to the current market price. Südelektro's shares closed at SF1.303 ahead of yesterday's announcement. William Hall, Zurich

Czech groups cast their net abroad in search of funds

Bank loans are scarce and the Prague bourse has low liquidity, writes Robert Anderson

Czech companies are queuing to make international equity issues this year, as the flow of bank loans dries up and the Prague Stock Exchange struggles with low liquidity and a poor reputation.

Czech companies have been slower than their neighbours to seek international listings. Only the two biggest banks, Komerční Banka and Česka Spořitelna, are listed abroad, on the London Stock Exchange.

However, at least five companies plan to follow them to London this year.

Česko Radiokomunikace, the state-owned radio, television and telecommunications company, today list as Global Depository Receipts in London the bulk of a \$184m equity issue.

Next month, SPT, the majority-controlled fixed-line telecoms monopoly, will seek a listing of some existing shares. In July, CKD, the country's second biggest engineering company, begins

its own \$40m GDR roadshow. And in the autumn, IPS, the second biggest construction group, is planning an \$80m GDR issue of new and old shares.

This new wave follows last autumn's aborted initial public offering of Bonton, a music and film company, and a GDR issue by Interkontakt, the country's biggest retailer.

Interkontakt needed to raise capital quickly to fund the acquisition of PHS, the second largest retail chain in Poland, and chose instead to place \$46m of shares with a private equity fund run by Credit Suisse First Boston.

Bonton cancelled its \$30m-\$40m issue at the last minute because of the global fall in stock markets. Like Interkontakt, it turned to a private investment fund, run by Morgan Stanley, its adviser. Bonton now hopes to go ahead with a larger IPO in the autumn.

While the cancellations can be blamed in part on stock market turbulence, they also reflect the tightening domestic market for loans and companies' growing indebtedness.

Previously, banks were an easy source of finance because of their own shareholdings in companies. Jan Tauber, head of the Prague office of HSBC, which is preparing the IPS issue, says:



Bad reputation: Prague bourse is seen as way of gaining control of companies rather than raising funds

"Bank lending in the Czech Republic resembled venture capital funding in more mature market economies."

Now interest rates have risen to about 16 per cent as the central bank tightens monetary policy, and banks are more wary of giving credit as they make provisions for their past largesse.

This is hurting many Czech companies. Igor Strati, finance director of ZPS, the country's biggest machine tool manufacturer, says: "With interest rates as they are, if you want to finance something you haven't a chance."

He says ZPS plans its own \$50m-\$60m equity issue at the end of the year to improve its balance sheet.

The banks acknowledge the problem. "Czech companies depend much more than others in the region on banking credits. Therefore they are very sensitive to a change in interest rates," says Jan Klacik, head of

Investical a Postovní Banka, the third biggest bank by assets. "Interest rates are too high and it must be difficult for many companies to work out an investment project with a return that can pay back the credit."

But Czech companies have also been slow to seek issues because of their shareholder structures. Many are still in state hands, and the majority shareholders of companies privatised through vouchers in the early 1990s are more worried about losing control than a shortage of capital.

The problem is accentuated by the failure of the stock market to do its job. "The capital market has not been regarded as a way of raising funds," says Mr Tauber. "It was looked at more as a way of gaining control of the company. This

was the natural consequence of voucher privatisation."

Bonton's IPO would have been the second and only significant IPO on the local bourse. Czech and foreign investors have been frightened off by insider trading, the lack of protection for minority shareholders and outright fraud, with the result that liquidity is low and the market has underperformed its neighbours.

For successful start-up companies such as Bonton and Interkontakt, a listing in London is the first step to funding regional expansion. The market cannot handle large issues and foreign investors are much more willing to buy GDRs than to trade in Prague.

For smaller and less attractive Czech companies, however, the outlook is bleak. Last month, a capital markets watchdog was finally set up. New legislation will force investment funds to reduce their industrial shareholdings and become open-ended. However, Mr Tauber says this is unlikely to change things in the short term. "IPOs of \$15m-\$30m are the maximum the market could handle," he says. "And they would have to be well known and very profitable companies."

Long-term perspective on Asia.

Unparalleled understanding of its opportunities and challenges.

Commitment to the region today and

tomorrow.

Our Commitment to Asia

More than 50 years ago, BankAmerica made the visionary commitment to help finance Asia's development, and built a network to do it.

Today, our commitment is stronger than ever. Our in-country specialists and research teams across the region provide the hands-on knowledge and analysis necessary to thoroughly understand diverse Asian markets. Our product expertise and global financial strength enable us to answer capital raising challenges with innovative solutions. And our international network of issuers and investors ensures client access to opportunities and resources needed to grow businesses.

Today and tomorrow, BankAmerica remains dedicated to helping our clients in Asia move forward.

That's power in motion. That's BankAmerica in motion.



© 1998 BankAmerica Corporation



BankAmerica

www.bankamerica.com

power
in motion.™

COMPANIES & FINANCE: INTERNATIONAL

Cifra sets the record straight

By Henry Tricks in Mexico City

Walk into the corporate headquarters of Cifra, Mexico's largest retailer, and it feels like a visit to the altar of cost-cutting.

No sign of the plush penthouse offices common to most big Mexican corporations. Top Cifra executives work out of the drab second floor of a branch of its low-cost clothing store, Suburbia. They ditched the fancier former headquarters after deciding it would be more profitable as a new store.

The thriftiness for which Cifra has been known throughout its 40-year history makes it a neat fit with Wal-Mart of the US, the world's largest retailer, which bought a controlling stake in the 11th Mexican company last September.

So it was to the horror of industry watchers that financial results highlighting the initial impact of the merger revealed that Cifra's operating expenses jumped 60 per cent in the first quarter and profit margins tumbled.

The company's stock value, which climbed 143 per cent last year, plummeted and some industry analysts gloomily suggested Wal-Mart's takeover of Cifra may have been bungled.

Unused to such criticism, Cifra executives sprang into action. They summoned analysts who had downgraded their earnings estimates and convinced them some of their assumptions were wrong. A company that is notoriously media-shy also opened its doors to explain the merger - though under the strict condition that no names be used.

"There's no magic formula," said one executive. "There are greater expenses up front because you have people from Wal-Mart and Cifra doing the same jobs. Then there comes a process of selection and you standardise operations to achieve economies of scale. It doesn't happen overnight."

Since Wal-Mart moved into Mexico in 1991, its stores had been run as joint ventures with Cifra, while fully-owned Cifra stores that pre-dated 1991 were managed separately. Last September all the stores were combined under the Cifra name, and Wal-Mart took over 51 per cent of Cifra's shares.

The higher costs, the executive said, were the result of a transition period in which both Cifra and the stores formerly run by Wal-Mart/Cifra strove to understand each other's computer and administrative systems.

The company insists the merger will produce economies of scale. Where synergies were not previously exploited, Cifra is now linking buying, computing and management of all its stores under the same roof.

It is introducing Wal-Mart's high-tech inventory management system across the company, and it does its

Management expects that by the year-end the new company should be as efficient as the Cifra of old

mainframe computing from Wal-Mart's processing facility in Tulsa, Oklahoma.

The cost-savings have not come as quickly as many analysts had expected, but management expects that by the year-end the new company should be as efficient as the Cifra of old.

On the ground, the merger is already bringing changes to Cifra's mix of stores. In 1997, low-margin, high-volume stores such as Wal-Mart's Sam's Club and the

downmarket Bodega format accounted for 47 per cent of Cifra's sales, indicating a drive toward greater market share.

Over the next 18 months, it has plans to invest between \$250m and \$400m in further expansion, aiming to move beyond the central Mexico area where most of its stores are clustered.

With competitors snapping at its heels as consumption in Mexico rebounds from a punishing economic crisis after the 1994 peso devaluation, Cifra has begun aggressively cutting prices.

The promotion appeared to have begun paying off in April, when Cifra's same-store sales grew a robust 14 per cent - higher than some of its main competitors. An executive said the pace was also strong in May, though slightly below April's level which was bolstered by a late Easter.

Meanwhile, analysts who had downgraded Cifra stock in the wake of the first-quarter results were anxious to stress the company has a bright future.

"It's a very cost-conscious company," said Debra Wang Smith of J.P. Morgan, who cut Cifra to a long-term buy from a buy in early May. "It's lean and so is Wal-Mart."



Saab Automobile, the Swedish carmaker, yesterday confirmed a SKr1.2bn (\$156m) investment to upgrade manufacturing plants and unveiled a new estate car (above), due to be launched later this year, writes Tim

Bart in Stockholm. The loss-making company, which is 50 per cent owned by General Motors of the US, said it planned to restructure operations at its Trollhättan plant in southern Sweden, where the new car would be

produced. Robert Hendry, chief executive, said the introduction of new press lines at Trollhättan would help lift productivity by 30 per cent. Saab said its new-estate car, based on the 95 saloon, would be launched at the

Paris motor show this autumn, with deliveries beginning next year. The measures mark the latest attempt by Saab to return to profit after accumulating losses of SKr1.2bn since 1989, when GM acquired its stake.

Vendex and DBU in foods merger

By Gordon Grant in Amsterdam

Shares in Vendex and De Boer Unigro (DBU), two big Dutch retailers, jumped yesterday as they revealed a plan to create a supermarket group ranking close behind Ahold, the sector leader.

Vendex, which said earlier this year it was spinning off

its foods division, is to merge that business with DBU - itself the product of a 1997 merger. They said the combined group would seek to expand outside the Netherlands.

About 28 per cent of the £11.5bn (\$5.5bn) turnover will come from Spain, where DBU operates the Super El Arbol chain, and

Belgium, where it has a 5 per cent market share.

The share of the Dutch grocery market, through chains such as Edah and Super De Boer, will be 24 per cent. That compares with 28 per cent for Ahold's Albert Heijn flagship.

In an equity swap, the exact proportions of which will be set in July, Vendex

shareholders are expected to be offered about two newly issued shares in DBU for every seven they own. The combined market value yesterday approached £1.5bn, as shares in Vendex rose £1.60 to close at £1.141, while DBU added £1.11 to £1.095.

The companies expect a positive effect on earnings per share in the first year.

NEWS DIGEST

BATTERIES

Eveready set to launch new Energizer product range

Eveready Battery, part of Ralston Purina, the US pet food and battery company, is today expected to announce the imminent launch of a new range of batteries that will be sold around the world under its flagship Energizer brand name.

Called Energizer Advanced Formula, the battery is an upgraded version of its existing Energizer alkaline battery. It has been developed to give longer life in so-called high drain devices such as hand-held computers, digital cameras and camcorders.

The move will be seen as Eveready's response to Duracell Ultra, a similar product launched a few weeks ago by Duracell, the battery making arm of Gillette, the US shaving products group.

Duracell said its new batteries would last up to 50 per cent longer than existing alkaline batteries when used in high-drain devices. Eveready is going a step further, claiming its Energizer Advanced Formula can last up to 60 per cent longer.

Eveready's Energizer subsidiary said high drain devices now accounted for more than 20 per cent of alkaline batteries sold in AA and AAA sizes, and represented the fastest growing segment of the market.

"By the year 2002, consumer demand for alkaline batteries with strong high-rate performance is expected to increase by as much as 60 per cent," the company said. Energizer will roll out the product during the summer, backing it with a \$150m global marketing campaign. Richard Tomkins, New York

FINANCIAL SERVICES

FirstRand valued at R51.7bn

Shares in FirstRand, the new South African group merging the financial services interests of Anglo American and RMB Holdings, were listed on the Johannesburg Stock Exchange yesterday and closed at R9.80, valuing the company at R51.7bn (\$10.2bn).

FirstRand, which brings together banks and life insurers under a single holding company, is South Africa's biggest listed financial services group. Old Mutual, the life insurer which is demutualising and plans to list next year, is expected to be valued at a similar amount.

The RMBH team has further tightened its management grip on the new group following the decision by Neil Chapman of Anglo's Southern Life Association not to take up the post of FirstRand chairman because of "family issues". Anglo has the right to nominate the chairman during FirstRand's first three years, but it has chosen G.T. Ferreira of RMBH for the job.

Laurie Dippenaar, FirstRand chief executive, said the group was ahead of South African competitors seeking strikes in the belief that the divisions between life assurance, investment management, banking operations and their respective products are increasingly and rapidly becoming indistinct, he said. Victor Mallet, Johannesburg

FTSE GOLD MINES INDEX

	May 22	% chg on day	May 21	Year ago	Year high	Year low	P/E ratio	52 week high	52 week low
Gold Mines Index (30)	1106.00	-0.6	1107.91	1084.31	1401	800	10.85	1211.00	891.00
in Regional Indices									
Africa (14)	1206.25	-1.0	1209.37	1170.55	1402	145.04	17.05	1621.71	1021.71
Australia (7)	1206.00	-0.1	1206.25	1170.55	1402	391.22	17.05	1621.71	1021.71
North America (11)	1137.00	-0.8	1140.23	1471.88	1110	152.75	1074.10	1645.00	894.00

Source: FTSE International Limited 1998. All data are estimates. Figures in brackets show number of companies in the index. Last prices were available for 5th edition.



What is the true face value of the EMU? One index can identify it.

Any index can give you a picture of the EMU. But you want the picture.

You want the realities of the European market in all its complexities. A benchmark built around a carefully selected and weighted group of companies within industries and industries within regions.

With the companies carefully measured for their true impact on their markets. With the markets carefully measured for their true relationships to one another. And with all the complexities — liquidity, volatility, cyclicity — factored in and monitored constantly.

In short, you want the MSCI EMU and Pan-European Indices.

The MSCI European Series embraces 25 regional, 38 industry and 8 sector indices. It offers all the flexibility you need in EMU and Pan-European investing. And each index is structured around the same comprehensive MSCI methodology that has become the acknowledged industry leader.

Call us about the new MSCI EMU or Pan-European Indices. In London 44-171-425-6660, New York 1-800-711-MSCI, Tokyo 813-5424-5470, Hong Kong 852-2848-5200.

Or visit our web site at <http://www.msci.com>.

MORGAN STANLEY

Amsterdam Montreal Bangkok Moscow Beijing Mumbai Frankfurt New York Osaka Geneva Paris Hong Kong Sao Paulo Johannesburg Seoul Shanghai London Singapore Luxembourg Sydney Madrid Taipei Tokyo Melbourne Toronto Milan Zurich

NOTICE TO THE HOLDERS OF OUTSTANDING

US\$65,000,000
0.25 per cent. Convertible
Bonds due March 12, 2006
(the "Bonds") of
Samsung Display
Devices Co., Ltd.
(the "Company")

NOTICE IS HEREBY GIVEN to the holders of the Bonds that, pursuant to the provisions of the indenture governing the Bonds, the conversion price of the Bonds has been adjusted from Won 77,498 to Won 74,147 per share. The new conversion price will become effective retroactively to April 3, 1998. This adjustment has been made as a result of rights issue of the Company's shares. The Board of Directors' meeting of the Company approved such rights issue on March 6, 1998.

Samsung Display
Devices Co., Ltd.
May 15, 1998

CS First Boston Group
CS First Boston
Finance, B.V.
(formerly CSF Finance)

US\$200,000,000
Guaranteed subordinated
floating rate notes 2003

Notice is hereby given that for the interest period 26 May 1998 to 27 November 1998 the notes will carry an interest rate of 5.875% per annum. Interest payable on 27 November 1998 will amount to US\$30.10 per US\$1,000 note and US\$30.10 per US\$1,000 note and US\$30.10 per US\$1,000 note.

Agent: Morgan Guaranty
Trust Company
JPMorgan

Real Estate Finance

Monday June 15

For further information, please contact:

Publicity Dept in London

Telephone: 01753 61000 Fax: 01753 61001

or

The First in New York

Telephone: 212 748 1341 Fax: 212 748 1342

Circle 100, New York 100

FINANCIAL TIMES

COMPANIES & FINANCE: UK

Good times continue to roll for computer companies

But supply could start to exceed demand at the start of the new millennium and growth slip, writes Christopher Price

Some computing services groups may look hugely overvalued but analysts are agreed that the market will continue to boom for at least the next three years and support the premium ratings many companies in the sector trade on.

The latest study, The 1998 Holway Report, says the UK and European computer software and services sector is being buoyed by strong demand from corporate customers seeking to use technology to become more competitive.

Growth is also driven by one-off factors such as the so-called millennium bomb - where older computer systems may not recognise dates after 1999 and malfunction - and the introduction of the European single currency.

However, the report - the most comprehensive study of the UK computing services market - sounds a note of caution, warning that growth will slip back to market average levels soon after 2000 as the millennium bomb and euro expenditure tails off.

This, it argues, will significantly affect the stock market valuations of a large number of computing services companies. IT staff agencies in particular will be hit "very badly" when supply exceeds demand in

the early part of the new millennium.

The report also urges private software and computer service companies to act quickly and embark on either a trade sale or flotation to take advantage of the exotic rating the market is enjoying.

Holway's report - covering 2,500 companies including privately-held businesses and foreign subsidiaries - says 1997 was the first year that the number of outward acquisitions outnumbered purchases of UK companies by overseas predators.

Rising profits, not to mention soaring share prices, saw UK computing services companies going on a spending spree - with Delphi, Logica, Mays, Sage and Select Appointments particularly active.

This trend is set to accelerate. In a recent report on the sector, Dresner Kleinwort Benson forecasts that the seven biggest software and services companies will spend some £7.5bn (\$12bn) on acquisitions over the next five years.

Takeover activity will be a key factor in the continuing growth of the sector, the investment bank believes. It predicts that the current IT sector capitalisation of £18.2bn will grow to £22.5bn by the end of 1998 and reach £25bn by the end of 2003. In

this case, its proportion of the All-Share Index would rise from 1.3 per cent to 5 per cent.

This target assumes average organic growth rates of between 18 per cent and 19 per cent - almost twice the market average - up to 2003.

Holway describes 1997 as a "vintage year". Pre-tax profits, for example, rose by an average 37 per cent, against 26 per cent previously, while earnings per share among listed companies increased by an average 51 per cent.

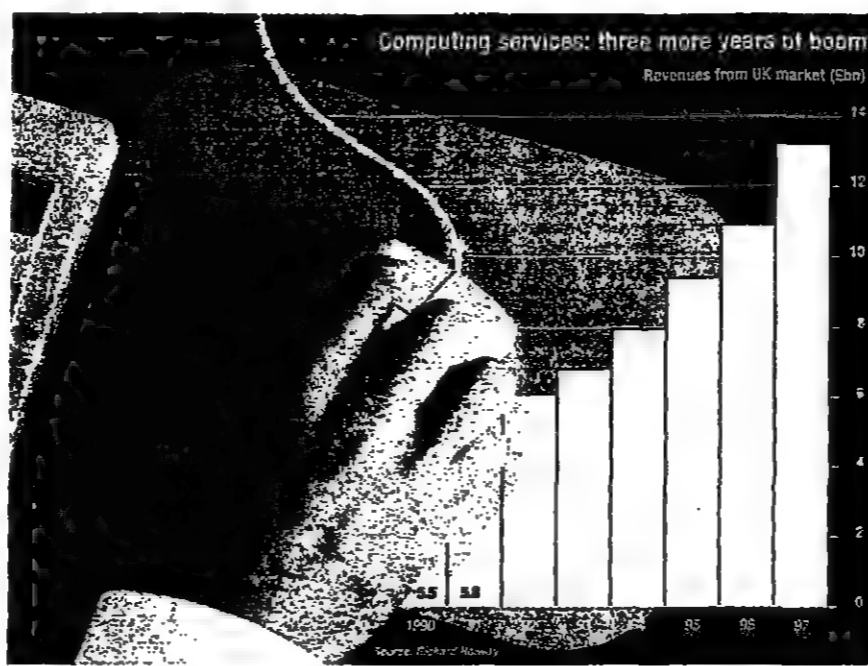
In addition, the UK was the fastest growing market in Europe. This helped it overtake France as the second largest software and services market in the region, and at current growth rates, Holway says it will overtake Germany soon after 2000.

In spite of this, no UK companies feature in the list of Europe's biggest computing services groups.

Cap Gemini of France and Germany's SAP head a list of six European groups in the world's 20 largest, which is dominated by US groups.

The report also notes that revenues from outside the UK rose 48 per cent to \$5.1bn, with growth in continental Europe reaching 50 per cent.

The worst performing sector was hardware maintenance, where revenues



declined 5 per cent, a similar fall being recorded among systems and operating software companies.

IT staff agencies were the strongest performers, with revenues jumping 86 per cent including organic growth of 35 per cent. Elsewhere, revenues from internet-related activities rose six-fold to \$300m,

with Holway forecasting growth to more than £2.5bn by 2001.

EDS of the US remained the largest supplier to the UK market, achieving revenues of more than £1bn for the first time last year. British Telecommunications' Syntegra was the highest placed UK-owned company (£111m), followed by Logica.

There was a 22 per cent

increase to almost 250,000 in the number of staff employed by the 2,500 companies. However, Holway found average staff costs unchanged, in spite of reports of wage inflation among some IT specialists and skill shortages.

The 1998 Holway Report, 01253 781545, £2.150.

Microsoft quick quiz, Page 14

COMMENT

Thames Water

Thames Water's international operations have been fairly trouble-free recently, unlike rivals such as United Utilities which got stuck down a Bangkok sewer. But now it seems that the plug could be pulled on one of its own projects: a 25-year concession to manage part of Jakarta's water supply. Could this blow a hole in the company's international portfolio?

Unlikely. The company has gone for the lower-risk end of international expansion. It bids for concessions to manage water systems. This exposes it to far less revenue risk than more ambitious "build-operate-transfer" projects.

Still, questions need to be asked of the company's political antennae. It began operating in Indonesia just four months ago, when the country's volatility was obvious.

Like all water companies, Thames needs to increase its non-regulated business as a protection against tough regulation of the core business. International expansion still offers the best route for Thames. To muscle into alternative sources of non-regulated earnings now, such as waste management, would be expensive. But if Thames is to pursue more emerging market opportunities, it may need to show greater political sophistication.

Electricity pool

It was not quite turkeys voting for Christmas, but it was still odd to hear the generator, PowerGen, push for a reform of the electricity pool last week.

After all, it and National Power benefit from the status quo. As swing producers, they set the price of electricity in the pool, the clearing house between suppliers and users. What this price should be is the subject of lively debate. Many argue that it is still too high, and is more than the price a new entrant would need to justify building a plant. The pool system needs reform.

PowerGen supports one important innovation: demand-side bidding. At the moment, the pool price does not reflect bids from consumers to take electricity at a certain time and a certain price. Matching bids from suppliers with the users' offer would mean more transparent prices. But if the government pushes ahead with its moratorium on gas-fired power stations, reform of the pool pricing system will be undermined. Giving users influence over the price of electricity is an empty gesture if competition among suppliers is restricted at the same time.

RMC builders' merchant could fetch over £100m

By Jonathan Giller

RMC Group, the building materials company, is believed to have put its builders' merchant, Hall & Co, up for sale.

Analysts, predicting a round of consolidation in the increasingly competitive market, say the underperforming subsidiary could fetch just over £100m (£187m).

There is expected to be keen interest from other builders' merchants, including Travis Perkins, Graham Group, Wolsley and Meyer.

RMC would not comment directly on the disposal. In response to a question from a shareholder at its annual meeting on Friday, Christopher Hampson, chairman, said the group was "working hard to improve the performance of Hall & Co, which is under review."

However, some potential bidders are understood to have already signed confidentiality agreements giving them access to the accounts

of Hall as a first step towards an auction.

RMC does not disclose separate figures for Hall, which are instead consolidated with those of several other businesses. Together the operations made trading profits of £28.4m on turnover of £908.8m in 1997.

The results include those of Great Mills, the DIY retailer. In common with Hall this business lies outside what analysts see as RMC's core activities in concrete, cement and aggregates.

However, the company is thought unlikely to dispose of Great Mills, which is thought to produce respectable profits.

Hall has 97 branches and specialises in relatively low-margin "heavyweight" building products, such as concrete blocks and cement. Analysts estimated its sales at about £180m. They said the subsidiary was unlikely to sell for more than 65 per cent of turnover, or £117m.

The consolidation in build-

ers merchanting is being driven by two factors - strong strong competition to supply an increasingly fickle customer base at the lowest price and the need to invest heavily in technology.

To keep demands for price cuts in check, builders' merchants are setting up big databases recording the prices at which each customer last bought any of many thousands of products.

Last autumn, Meyer bought Harcross, the building merchanting division of Harisons & Crofield, the conglomerate for £318m. The transaction made Meyer, which already owned Jewson, the biggest building merchant in the UK.

Apart from Hall, there are few large builders' merchants for acquirers to buy, although Graham Group has been tipped as a takeover candidate. The bulk of the consolidation is likely to consist of small, local builders' merchants being bought piecemeal by national operators.

HSBC to promote unit trust

By James Mackintosh

HSBC Securities will today become the first stockbroker to promote a unit trust to clients.

The move is the first sign that brokers may become involved in launching open-ended investment companies (oiecs), the successors to unit trusts, which incorporate elements of the investment trust framework.

Usually unit trusts are launched and marketed by the fund management company that runs them.

HSBC Securities is promoting Close Fund Management's European Escalator fund, the latest in Close's line of "protected" funds that use derivatives to reduce the risk of a fall in value. Close FM is part of the London-based merchant bank Close Brothers.

Steven Keeling, head of HSBC Securities' retail sales, said: "We are not promoting the unit trust industry but a product that we think is very good."

Glynwed to make £100m sale

By Robert Wright

Glynwed, the Birmingham-based engineering company famous for Aga and Rayburn cookers, has agreed to sell its metals distribution business for £100m (£167m).

The sale to Kingston Metals, a subsidiary of Henley Management Company, a privately-owned US group, forms part of Glynwed's strategy of focusing on its two core businesses. These are its consumer and food service products division, which makes Agas, and its pipe systems business, which makes specialist gas

and water pipes.

The operations sold distribute stainless steel and aluminium under the names Aslco, Cashmore's and Amari in the UK and also trade in Germany, the Netherlands, Spain and the Irish Republic.

Glynwed had been keen to dispose of the metals distribution business because it was so heavily affected by price fluctuations. In the year to December 27 1997, it made operating profits of £10.1m on £268m turnover. The price is based on net assets of £80m plus goodwill of £40m, with the price

adjusted according to changes in the level of net assets.

Tony Wilson, Glynwed chief executive, said that when the distribution business was bought 10 years ago it was expected to fit in with the metals processing division.

However, the two divisions dealt in different metals. Macready's and Hub Tubes, two distribution businesses closely associated with the processing division, were being retained, as were two plastic sheet and rod distributors, Amari Plastics in the UK and Port Plastics in the

US.

The sale was at the top end of analysts' £80m-£100m forecasts for the transaction. Glynwed has said it also intends to sell the metals processing division, but Mr Wilson was unwilling to be drawn yesterday on the state of negotiations on that disposal.

He said a return of cash to shareholders after the sale was one option, but the company was more interested in making acquisitions.

Kingston was committed to developing the distribution business, Mr Wilson said.

PDFM acts to improve performance

By Jane Martinson, Investment Correspondent

PDFM, the UK's second largest pension fund manager, has made changes to its investment practices to improve its poor performance.

The moves are designed to show that the fund manager is open to new ideas without moving from its core "value" philosophy which invests, for example, in companies aiming to improve returns through restructuring. They come as other large UK fund managers are reorganising the way they manage their

funds in the face of an increasingly disillusioned client base. PDFM, which is owned by UBS, the Swiss banking group, has underperformed its peers and the FTSE 100 index in the past three years mainly because of a bearish view of equities in a sustained bull market.

In the quarter to March this year, PDFM's £1.2bn pooled fund, which manages pension funds on behalf of several clients, returned 9.1 per cent, against an average of 12.3 per cent for the 66 funds ranked by Caps, a performance measurement company. Throughout PDFM fourth

from bottom of the 66 funds.

As part of the changes, the company has made it harder for its fund managers to sell a share without detailed research. Paul Yates, head of marketing, said full analysis was undertaken before a share was bought, and this would now be done also when it was considered for sale. This normally happened when its price increased to PDFM's notional "fair value" for the share.

PDFM, which has recently reverted to Phillips and Drew, its pre-acquisition name, has also reviewed the

methods it uses to value shares, for example the economic value added technique. Mr Yates said the group was "more open-minded about looking at alternative arrangements". However, he stressed that it was "still dogmatic about principles", and would continue to pursue its value philosophy.

Mercury Asset Management, the UK's largest pension fund manager, introduced investment restrictions for the fund managers who work for its largest clients.

Financial Times Surveys

Real Estate Finance

Monday June 15

For further information, please contact:

Felicja Kay in London

Tel: +44 171 873 4199 Fax: +44 171 873 4817

email:felicja.kay@FT.com

Or

Tim Hart in New York

Tel: +1 212 745 1341 Fax: +1 212 688 8229

email:tim.hart@FT.com

FINANCIAL TIMES
No FT, no comment.

To The Holders Of
Banco Central
de Costa Rica
US\$66,611,115
Series A

Interest Claims Bonds
Due May 21, 2005
US\$76,435,529
Series B

Interest Claims Bonds
Due May 21, 2005

NOTICE IS HEREBY GIVEN that the rate of interest from May 21, 1998 through and including August 20, 1998 is 6.546875% per annum. Interest coupons payable on August 21, 1998 will amount to \$318.96 per \$100,000 nominal face amount on the Series A Claims and \$352.42 per \$100,000 nominal face amount on the Series B Claims.

First Trust of
New York, N.Y.
as Fiscal Agent

Dated: May 19, 1998

ALTE LEIPZIGER

J.P. Morgan Securities Ltd. has placed
5,788,620 shares of

BHF-BANK AG

at DM 75 per share representing a transaction value of
DM 434 million on behalf of

Alte Leipziger
Lebensversicherungsgesellschaft a.G.

JPMorgan

19 May 1998

This announcement is neither an offer to sell nor a solicitation of an offer to buy any of these securities and appears as a matter of record under J.P. Morgan Securities Ltd. is regulated by the SFA and is a member of the London Stock Exchange. ©1998 J.P. Morgan & Co. Incorporated. J.P. Morgan is the marketing name for J.P. Morgan & Co. Incorporated and for its subsidiaries worldwide.

BUSINESS AND THE LAW

LEGAL SERVICES CROSS-BORDER LINKS

Forging alliances with German companies

City of London law firms are considering carving a presence across Europe, writes **Robert Rice**

The battle for the German legal services market is heating up. Last week's announcement by S.J. Berwin & Co, the City of London law firm, that it is forming an exclusive link with Knopf Tulloch & Partner, the specialist German private equity adviser, came soon after the announcement by Freshfields, the UK international law firm, of a link with Germany's Derringer Tessen Hermann & Sedemund.

The announcements were made against the background of the continuing talks between Linklaters, the UK international law firm, with Oppenheoff & Rädler, the primary flows of legal work are from the US outwards and from the UK outwards.

For German law firms, therefore, the main question is whether it is better to be independent and work with lots of UK and US firms or whether they would be better off with a real involvement in the US or UK market place through a link with a US or UK firm.

"It's a brave move to link if you've got good relations with lots of UK and US firms," he says.

The Alliance of European Lawyers provides a good example of how things have changed, he adds. When the firms from Germany, France, Spain, Belgium, the Netherlands and Sweden set up the Alliance they were determined not to have a UK member for fear of it swamping the others. Now they feel the need for a link with the UK market, hence the talks with Linklaters.

David Harrel, S.J. Berwin's senior partner, says the biggest single force for change in the

European legal services market is that law firms in the European Union, and in Germany and Italy in particular, have decided they should not be afraid of the London law firms and that an alliance is a good way forward.

"Every single City law firm is talking about trying to create an alliance or presence across Europe and the European market is more receptive to this than it ever was before," he says.

But there is another reason why in Germany in particular there is a more general move to link with the Anglo-American firms.

In the corporate world, transactions involving international money, both domestic and cross-border, are increasingly done on Anglo-American models using Anglo-American documentation. The German law firms are missing out on these deals because they lack significant US and UK law capability.

The merger between carmakers Daimler-Benz and Chrysler provides a good illustration of the problems the German law firms face. Although the merged company was to be structured essentially as a German undertaking and created under German law, Daimler chose Shearman & Sterling, the US international law firm, to do the deal.

According to Edward Burke, director of communications at Shearman & Sterling, there were two notable aspects about the deal. "The first was that the transaction was unusually lawyer-driven. German law hadn't anticipated a cross-border deal of this magnitude, so we had to invent a legal structure. The second was that we had German lawyers doing German law for a German company within a US law firm."

The only German firm with a real role in the transaction was Bruckhaus. Some commentators believe Bruckhaus, which values its independence highly, is the only German firm really capable of heading a pan-European law firm of its own making.

European Counsel magazine suggested recently that Bruckhaus could do worse than to get together with Ashurst Morris Crisp of the UK and the



Clarification on child allowance



A child-raising allowance automatically granted to persons fulfilling certain objective criteria, without any individual or discretionary assessment, and which is intended to meet family expenses constitutes both a family benefit and a social advantage for the purposes of European law, the European Court has ruled. Furthermore, a European Union member state is precluded from requiring nationals of other member states to produce a formal residence permit in order to receive a child-raising allowance.

As to the first question, the court noted that it had held in a previous judgment that the child-raising allowance in question amounted to a family benefit. It also constituted a social advantage since it was granted to workers generally because of their objective status as workers or by virtue of the mere fact of their residence in the country. Its extension to migrant EU national workers was also likely to facilitate their mobility within the EU.

As to the second question, the court made a number of general observations as the referring court had not given sufficient details for there to be a definitive ruling on Mrs Martinez Sala's status as a worker. The court held that a worker was a person who, for a certain period of time, performed services for and under the direction of another person in return for remuneration. Once the employment relationship ceased, the person lost the status of worker but that status could continue to produce certain effects thereafter. Persons genuinely seeking work also could be considered as workers.

In reply to the third question, the court observed that for nationals of other member states, possession of a residence permit was constitutive of the right to the child-raising allowance. Since German nationals were not required to produce documents of that kind to establish their entitlement to the benefit, this amounted to unequal treatment and discrimination prohibited by the EC Treaty. In addition, under the Maastricht treaty all nationals of EU member states were granted citizenship of the EU. This included the right not to suffer discrimination on the grounds of nationality within the personal scope of application of the EC Treaty. Such was the case where a member state delayed or refused to grant a benefit to persons lawfully resident on its territory.

Case C-85/96 *Maria Martinez Sala v Freistaat Bayern*, judgment of 13 May 1998, (ECJ (FC))

BRICK COURT CHAMBERS, BRUSSELS

Ten years ago

German law firms were not permitted to practise in more than one city

you've got good relations with lots of UK and US firms," he says.

The Alliance of European Lawyers provides a good example of how things have changed, he adds. When the firms from Germany, France, Spain, Belgium, the Netherlands and Sweden set up the Alliance they were determined not to have a UK member for fear of it swamping the others. Now they feel the need for a link with the UK market, hence the talks with Linklaters.

David Harrel, S.J. Berwin's senior partner, says the biggest single force for change in the

++ Report on the first six months of 1997/98 ++

Preussag increases profit

++ New group structure pays off ++ stop ++

++ Growth continues ++ stop ++

++ Hapag-Lloyd integrated ++ stop ++

Preussag	1st Half Year 1997/98	1st Half Year 1996/97	Change in %
Group turnover	DM 12,344	11,812	+ 4.5
Group profit after tax	DM 402	159	+ 152.8
Capital expenditure	DM 417	413	+ 1.0
Personnel	31.3	55,251	64,842 - 14.8

As of 31st March 1998, Preussag had 55,251 employees. The decline of about 15% is due to changes in the group structure.

Under continuing favourable economic conditions and due to the earnings power of the growth areas and the new activities in logistics and tourism, we expect that the positive trend in profits on ordinary business will continue in the second half of the financial year.

e-mail: investor.relations@preussag.de web site: http://www.preussag.de

PREUSSAG

Preussag AG • Karl-Wiechert-Allee 4 • D-30625 Hannover

BUSINESSES FOR SALE

Appear every Tuesday, Friday and Saturday.
For further information, or to advertise in this section, please contact
Marion Wedderburn on +44 0171 873 4874

To Advertise
Your Legal Notices

Please contact
Melanie Miles on
Tel: +44 0171 873 3349
Fax: +44 0171 873 3064

PEOPLE ON THE MOVE

O'Reilly moves from Lihir Gold to Rio Tinto

Rio Tinto, the world's biggest mining group, has appointed John O'Reilly, 53, chief executive (gold and other minerals). As chief executive of Lihir Gold, the company part owned by Rio, he has been responsible for the development and commissioning of the Lihir gold mine in Papua New Guinea.

He joined Rio as a technical consultant in the UK in 1987 after working for several mining companies in Africa and the Middle East.

At the London headquarters of the Anglo-Australian group he will join Andrew Vickerman, another of the main drivers of the Lihir project in the early days as it secured funding and started production. Lihir is one of the world's biggest gold mines, after producing 825,000 tonnes of gold this year.

Vickerman moved in October to become Rio's head of external affairs. O'Reilly, who is British, replaces John Collier, an Australian who is retiring after 38 years with Rio and a career that started in 1960 at the Broken Hill mines in Australia.

Michael Merton, 47, who joined the Lihir Gold management team in January, will take over as managing director of Lihir Management Company, based in PNG, effectively replacing O'Reilly. He previously held a number of senior financial and commercial positions at Rio, most recently as chief financial officer of the US Borax subsidiary in the States.

Kenneth Gooding

Doucet to head energy council

Gerald Doucet, president and chief executive of the Canadian Gas Association, the voice of the Canadian natural gas industry, has been appointed secretary general of the World Energy Council. He succeeds the late Ian Lindsay. The World Energy Council, founded in 1923, is a non-governmental

multi-energy organisation, spanning solar power to coal, with member committees in 91 countries reflecting a wide range of views within the energy sector on issues such as climate change.

The council produces influential reports about the industry and every three years holds a congress. The council's next congress is scheduled to take place in September in Houston, Texas.

Doucet, 54, had a career in public service and economic affairs in Canada and overseas before he joined the Canadian Gas Council.

He has also represented the province of Ontario in Paris as agent general.

Lisa Wood

Gampel joins card company

American Express is preparing to extend its corporate purchasing card, one of the fastest-growing areas of financial services, into Europe after recruiting a new vice-president to head the operation.

Laurent Gampel, 36, has just joined from Informix, where he led development of the software company's smart card division.

Corporate purchasing cards, similar to debit cards, are used for small-value purchases and can cut overheads by as much as 80 per cent, according to American Express. They have been growing rapidly in the UK since Visa pioneered its system in 1994, but American Express, by focusing on large blue-chip companies such as Boots and the Post Office, says it has a third of the £500m turnover. However, it suffered a blow last year when a Visa consortium was given exclusive rights to offer cards to government departments.

Gampel, a Frenchman, will spearhead American Express's drive into Europe. His first task is to persuade European tax authorities to accept card statements instead of VAT receipts, as the Inland Revenue does in the UK.

"We are in a unique position to offer a fully VAT capable system that is consistent throughout Europe," Gampel said. James Mackintosh

Fordham joins William Blair

John Fordham has left Alex. Brown, the US investment bank, for William Blair & Co in a move that may show history repeating itself.

Alex. Brown turned to Fordham, 48, in 1983 when it wanted to build a European corporate advisory business. Five years later, William Blair & Co, a Chicago company with similar ambitions, has decided he is the man to lead its European corporate finance team based in London.

The goal of each bank was to build corporate advisory businesses on the back of a London-based US equities operations. But the Alex. Brown that Fordham joined was transformed in 1997 when it was taken over by Bankers Trust. It changed again this year when British Telecommunications bought NatWest Securities. Where less than a year previously, Fordham had 24 London colleagues, now he had 4,500.

William Blair's decision to expand in Europe was prompted in part by the takeovers last year of a whole tier of independent US banks. Like the old Alex. Brown, Fordham's new employer is aiming for middle market clients, building on its expertise in certain sectors, including medical technology, business services and computer software.

William Blair, founded in 1935, is owned by its employees. Last year it advised on 26 completed deals worth \$3bn (£1.7bn) and raised another \$3bn for clients through managed underwritings.

Olds marks a first for DBS

Development Bank of Singapore, which is linked to the Singapore government, has appointed a foreigner as deputy chairman and chief executive officer, as well as to the DBS board of directors. John Olds, formerly of J.P.

Morgan, becomes the first Westerner to head one of the city state's main government-linked companies. Analysts interpreted the appointment as further proof of the government's resolve to liberalise its financial sector.

Olds could put a western face to Singapore banking by increasing, for example, DBS' transparency and interactions with the media, analysts said. This would help prepare the institution to assume a regional, and then global, presence. And it could lead other Singapore banks to do the same.

The 54-year-old was managing director of J.P. Morgan when he took early retirement at the end of last year. He spent 25 years leading various businesses for Morgan Guaranty Trust, the bank's chief banking subsidiary. Sheila McNulty, Singapore

Moving Places

● DRESNER KLEINWORT BENSON has appointed Richard Armstrong to its Hong Kong office as regional head of research. He joins from BZW. Geoffrey Barker joins the office as head of Asian macro research. He joins from Schroder Securities (Asia).

● CITIBANK has announced that Frederick Chapey Jr. has joined the company to head global derivatives and emerging capital market sales and trading. Previously, Chapey, 38, was head of global derivatives and deputy head of international capital markets at Chase Manhattan Bank.

● OCEAN GROUP has appointed Raymond Dinkin chief executive of its international supply chain management company, MSAS. Most recently he was managing director of Fort James, a paper and packaging group. Ian Smith is to become group commercial director. Smith built and managed a consulting business, Monitor.

● ING BARINGS has promoted Richard Johnson to managing director, head of emerging markets fixed-income sales, for the Americas region. He joined ING Barings in 1994 from Chase Manhattan.

هذه امن الاصل

Holidays fail to hold back Europe

by Jeffrey Brown

regional stock markets moving lower, led by Seoul where last week's dramatic news of a shrinking economy - South Korea's first-quarter GDP contracted by 3.8 per cent - continued to tax investors' nerves to the full.

Bond markets, too, were neutral at best and many - notably in the Netherlands - were broadly negative. And in the circumstances, the day's gains for equity markets looked a fairly compelling performance.

The FTSE Europe 300 index finished 12.81 higher on the day at 1,244.59 while the Euronext 100 index

showed a slightly faster turn of speed, adding 31.97 to 2,853.70, an advance of 1.1 per cent.

The Eblot 100 index, which follows companies domiciled in founder member countries of European monetary union, rose 17.79 or 1.7 per cent to 1,051.97.

Automobiles led the day's performance charts among individual sectors with a gain of 1.8 per cent. The distribution sector, up 1.7 per cent, was close behind. Life insurance gained 1.6 per cent.

German motor stocks looked to be the driving force behind the lead sector

with Volkswagen up Ecu 9.90 at Ecu 752.03 and Daimler-Benz rising Ecu 2.60 to Ecu 100.44 as a head of steam built up behind the latter in advance of tomorrow's annual meeting.

Construction was the backmarker, slipping 1 per cent as the only share in the sector fell foul of profit-taking after a recent strong run. Skanska B fell Ecu 5.00 to Ecu 44.45, a decline of more than 10 per cent.

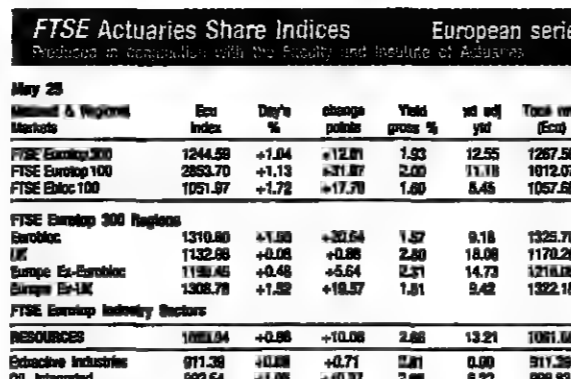
The only other sector to put in a negative performance, on what was clearly something of a red-letter day for the stock market bulls, was investment companies.

Algeria	ATS	14.09581
Andorra	ASF	11.8110
Czech Republic	CZK	36.38457
Denmark	DKK	7.114675
Finland	FM	0.073382
France	FFr	6.714945
Germany	DEM	1.936878
Greece	GRD	341.480247
Hungary	HUF	230.244026
Iceland	ISK	0.746369
Italy	ITL	1971.922995
Luxembourg	LFL	41.21181
Netherlands	NLG	2.202696
Norway	NOK	4.833325
Poland	PLN	3.8567
Portugal	PTE	204.751639
Romania	ROL	3671.345658
Russia	RUB	6.934340
Sweden	SEK	30.58567
Spain	ESP	160.705000
Switzerland	CHF	6.731406
Switzerland	CHF	6.658383
United Kingdom	GBP	0.984854
USA	USD	1.015874
USA	USD	1.015874
Brazil	BRL	1.300207
Canada	CAD	1.036902

-0.0003	-0.000	-0.0036	-0.00
-0.0203	-0.01	-0.05	-0.13
-0.0986	-0.05	-0.0402	-0.11
-0.0041	-0.05	-0.0021	-0.00
-0.0008	-0.01	-0.0005	+0.01
-0.0001	-0.01	-0.0001	-0.02
-0.0000	-0.00	-0.0002	-0.01
-1.7628	-0.47	-4.2545	-1.20
-0.0000	+0.36	+2.8478	+1.23
-0.0001	-0.00	-0.0003	-0.00
-0.0000	-0.02	-0.0007	-0.00
-0.0204	-0.05	-0.0543	-0.13
-0.0000	-0.00	-0.0005	-0.00
-0.0000	-0.07	-0.0040	-0.29
-0.0000	-0.03	-0.0149	-0.06
-0.0000	-0.00	-0.0108	-0.03
-0.0000	-0.00	-0.0289	-0.06
-51.0404	-0.53	+116.1406	+1.22
-0.0008	-0.23	-0.0080	+0.13
-0.0000	-0.15	-0.0003	-0.00
-0.0154	-0.03	-0.0114	-0.01
-0.0144	-0.17	-0.0174	+0.29
-0.0024	-0.14	-0.0025	-0.15
-0.0014	-0.29	-0.0068	-0.14
-0.0007	-0.07	-0.0012	+0.02
-0.0008	-0.05	-0.0015	+1.08
-0.0104	-0.03	-0.0163	-0.09

Source: FXS International

May '86	Fixed rate	Market rate	Diff to fixed %
Austria	7.03552	7.0367	+0.02
Belgium	20.6255	20.6174	-0.04
France	3.33368	3.3538	+0.06
Germany	1.00000	2.0364	+1.04



GENERAL INDUSTRIES	1947.25	+0.08	+0.41	1.80	11.09	129.84
Construction	1947.23	-1.02	-10.82	2.46	0.00	1027.59
Building Materials	1947.50	+1.34	+4.33	2.44	0.00	1027.59
Chemicals	1947.77	+0.10	+11.24	2.14	19.98	1048.25
Electronics	1947.77	+0.10	+11.24	2.14	19.98	1048.25
Food & Beverage	1947.77	+0.10	+11.24	2.14	19.98	1048.25
Textiles	1947.77	+0.10	+11.24	2.14	19.98	1048.25
Transportation	1947.77	+0.10	+11.24	2.14	19.98	1048.25
Engineering	1947.77	+0.10	+11.24	2.14	19.98	1048.25
Power, Paper & Printing	1947.77	+0.10	+11.24	2.14	19.98	1048.25
Consumer Goods	1947.77	+0.10	+11.24	2.14	19.98	1048.25

	1983-89	1990-95	1996-01	1992-01
Equity Securities	1003.99	40.74	+289.22	1.68
Foreign	1003.99	40.74	+1.68	1.68
Domestic	1003.99	40.74	+287.54	0.00
Fixed Income	1063.40	+0.54	+3.71	1.18
Foreign	1063.40	+0.54	+3.71	1.18
Domestic	1063.40	+0.54	+0.00	0.00
Monetary	658.96	+0.06	+0.74	2.37
Foreign	658.96	+0.06	+0.74	2.37
Domestic	658.96	+0.06	+0.00	0.00
Private Equity	394.11	+1.18	+17.42	1.33
Foreign	394.11	+1.18	+17.42	1.33
Domestic	394.11	+1.18	+0.00	0.00
Commodities	970.08	-0.13	+1.29	0.40
Foreign	970.08	-0.13	+1.29	0.40
Domestic	970.08	-0.13	+0.00	0.00
REITs	1185.25	+0.50	+0.87	1.86
Foreign	1185.25	+0.50	+0.87	1.86
Domestic	1185.25	+0.50	+0.00	0.00
Derivatives	1044.51	+1.68	+1.39	0.94
Foreign	1044.51	+1.68	+1.39	0.94
Domestic	1044.51	+1.68	+0.00	0.00
Life & Health	881.93	+0.14	+4.72	2.40
Foreign	881.93	+0.14	+4.72	2.40
Domestic	881.93	+0.14	+0.00	0.00
Real Estate	1044.59	+0.89	+7.18	2.19
Foreign	1044.59	+0.89	+7.18	2.19
Domestic	1044.59	+0.89	+0.00	0.00
Options	1007.55	+1.04	+10.20	2.01
Foreign	1007.55	+1.04	+10.20	2.01
Domestic	1007.55	+1.04	+0.00	0.00

Telecommunications	1019.31	+1.25	+12.54	1.81	2.31	1021.57
Insurance, Finance & Real Estate	867.26	+6.08	-0.74	2.78	4.91	882.18
Support Services	1038.15	+0.10	+1.82	1.20	4.59	1042.58
Transport	1044.28	+0.54	+3.82	2.48	0.50	1049.00
Information Technology	1082.10	+1.95	+30.38	0.30	2.23	1084.53
UTILITIES	1314.00	+1.08	+13.28	3.59	28.71	1354.23
Electricity	988.80	+1.14	+11.30	3.43	0.80	999.80
Gas Distribution	1024.80	+1.21	+13.21	1.78	83.72	1117.70
Water	887.08	+0.06	-0.26	5.13	0.94	887.00

OTHER INDIC

Prime Finance	1022.00	+1.20	+15.19	1.82	5.00	1022.75
Investment Companies	1129.40	-0.70	-0.80	1.55	0.00	1129.40
Property	818.10	+0.08	+0.71	2.88	0.00	818.10

Index information is available on <http://www.ftse.com>. © FTSE International Limited 2005. All rights reserved. VIX is a "Volatility" registered since 2004 on the London Stock Exchange and The Financial Times and are used by FTSE.

1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029, 2030, 2031, 2032, 2033, 2034, 2035, 2036, 2037, 2038, 2039, 2040, 2041, 2042, 2043, 2044, 2045, 2046, 2047, 2048, 2049, 2050, 2051, 2052, 2053, 2054, 2055, 2056, 2057, 2058, 2059, 2060, 2061, 2062, 2063, 2064, 2065, 2066, 2067, 2068, 2069, 2070, 2071, 2072, 2073, 2074, 2075, 2076, 2077, 2078, 2079, 2080, 2081, 2082, 2083, 2084, 2085, 2086, 2087, 2088, 2089, 2090, 2091, 2092, 2093, 2094, 2095, 2096, 2097, 2098, 2099, 2100, 2101, 2102, 2103, 2104, 2105, 2106, 2107, 2108, 2109, 2110, 2111, 2112, 2113, 2114, 2115, 2116, 2117, 2118, 2119, 2120, 2121, 2122, 2123, 2124, 2125, 2126, 2127, 2128, 2129, 2130, 2131, 2132, 2133, 2134, 2135, 2136, 2137, 2138, 2139, 2140, 2141, 2142, 2143, 2144, 2145, 2146, 2147, 2148, 2149, 2150, 2151, 2152, 2153, 2154, 2155, 2156, 2157, 2158, 2159, 2160, 2161, 2162, 2163, 2164, 2165, 2166, 2167, 2168, 2169, 2170, 2171, 2172, 2173, 2174, 2175, 2176, 2177, 2178, 2179, 2180, 2181, 2182, 2183, 2184, 2185, 2186, 2187, 2188, 2189, 2190, 2191, 2192, 2193, 2194, 2195, 2196, 2197, 2198, 2199, 2200, 2201, 2202, 2203, 2204, 2205, 2206, 2207, 2208, 2209, 2210, 2211, 2212, 2213, 2214, 2215, 2216, 2217, 2218, 2219, 2220, 2221, 2222, 2223, 2224, 2225, 2226, 2227, 2228, 2229, 2230, 2231, 2232, 2233, 2234, 2235, 2236, 2237, 2238, 2239, 2240, 2241, 2242, 2243, 2244, 2245, 2246, 2247, 2248, 2249, 2250, 2251, 2252, 2253, 2254, 2255, 2256, 2257, 2258, 2259, 2260, 2261, 2262, 2263, 2264, 2265, 2266, 2267, 2268, 2269, 2270, 2271, 2272, 2273, 2274, 2275, 2276, 2277, 2278, 2279, 2280, 2281, 2282, 2283, 2284, 2285, 2286, 2287, 2288, 2289, 2290, 2291, 2292, 2293, 2294, 2295, 2296, 2297, 2298, 2299, 2300, 2301, 2302, 2303, 2304, 2305, 2306, 2307, 2308, 2309, 2310, 2311, 2312, 2313, 2314, 2315, 2316, 2317, 2318, 2319, 2320, 2321, 2322, 2323, 2324, 2325, 2326, 2327, 2328, 2329, 2330, 2331, 2332, 2333, 2334, 2335, 2336, 2337, 2338, 2339, 2340, 2341, 2342, 2343, 2344, 2345, 2346, 2347, 2348, 2349, 2350, 2351, 2352, 2353, 2354, 2355, 2356, 2357, 2358, 2359, 2360, 2361, 2362, 2363, 2364, 2365, 2366, 2367, 2368, 2369, 2370, 2371, 2372, 2373, 2374, 2375, 2376, 2377, 2378, 2379, 2380, 2381, 2382, 2383, 2384, 2385, 2386, 2387, 2388, 2389, 2390, 2391, 2392, 2393, 2394, 2395, 2396, 2397, 2398, 2399, 2400, 2401, 2402, 2403, 2404, 2405, 2406, 2407, 2408, 2409, 2410, 2411, 2412, 2413, 2414, 2415, 2416, 2417, 2418, 2419, 2420, 2421, 2422, 2423, 2424, 2425, 2426, 2427, 2428, 2429, 2430, 2431, 2432, 2433, 2434, 2435, 2436, 2437, 2438, 2439, 2440, 2441, 2442, 2443, 2444, 2445, 2446, 2447, 2448, 2449, 2450, 2451, 2452, 2453, 2454, 2455, 2456, 2457, 2458, 2459, 2460, 2461, 2462, 2463, 2464, 2465, 2466, 2467, 2468, 2469, 2470, 2471, 2472, 2473, 2474, 2475, 2476, 2477, 2478, 2479, 2480, 2481, 2482, 2483, 2484, 2485, 2486, 2487, 2488, 2489, 2490, 2491, 2492, 2493, 2494, 2495, 2496, 2497, 2498, 2499, 2500, 2501, 2502, 2503, 2504, 2505, 2506, 2507, 2508, 2509, 2510, 2511, 2512, 2513, 2514, 2515, 2516, 2517, 2518, 2519, 2520, 2521, 2522, 2523, 2524, 2525, 2526, 2527, 2528, 2529, 2530, 2531, 2532, 2533, 2534, 2535, 2536, 2537, 2538, 2539, 2540, 2541, 2542, 2543, 2544, 2545, 2546, 2547, 2548, 2549, 2550, 2551, 2552, 2553, 2554, 2555, 2556, 2557, 2558, 2559, 2560, 2561, 2562, 2563, 2564, 2565, 2566, 2567, 2568, 2569, 2570, 2571, 2572, 2573, 2574, 2575, 2576, 2577, 2578, 2579, 2580, 2581, 2582, 2583, 2584, 2585, 2586, 2587, 2588, 2589, 2590, 2591, 2592, 2593, 2594, 2595, 2596, 2597, 2598, 2599, 2600, 2601, 2602, 2603, 2604, 2605, 2606, 2607, 2608, 2609, 2610, 2611, 2612, 2613, 2614, 2615, 2616, 2617, 2618, 2619, 2620, 2621, 2622, 2623, 2624, 2625, 2626, 2627, 2628, 2629, 2630, 2631, 2632, 2633, 2634, 2635, 2636, 2637, 2638, 2639, 2640, 2641, 2642, 2643, 2644, 2645, 2646, 2647, 2648, 2649, 2650, 2651, 2652, 2653, 2654, 2655, 2656, 2657, 2658, 2659, 2660, 2661, 2662, 2663, 2664, 2665, 2666, 2667, 2668, 2669, 2670, 2671, 2672, 2673, 2674, 2675, 2676, 2677, 2678, 2679, 26

[illegible]

May 25	Carriboy	Closing	Ch
--------	----------	---------	----

Country	code	year	oil use	oil price	oil revenue	oil exports
Austria	AT	1980	0.0000	0.0000	0.0000	0.0000
Belgium	BE	41.11810	-0.0020	0.00	-0.0545	-0.13
Canada	CA	26.30400	-0.0000	0.00	-0.0000	0.00
Central Republics	CR	0.0000	0.0000	0.00	0.0000	0.00
Denmark	DK	7.81457	-0.0041	0.00	-0.0021	-0.03
Finland	FI	6.30320	-0.0008	-0.01	-0.0005	-0.01
France	FR	6.70402	-0.0001	0.00	-0.0001	0.00
Germany	DE	1.59870	-0.0000	0.00	0.0002	0.01
Greece	GR	341.40420	-0.1038	-0.47	-2.5446	-1.23
Indonesia	ID	229.24400	0.0000	0.00	0.0000	0.00
Italy	IT	6.79458	-0.0001	0.00	-0.0003	0.04
Italy	IT	1971.88200	0.3020	0.02	0.2997	0.03
Japan	JP	41.11810	-0.0020	0.00	-0.0545	-0.13
Netherlands	NL	2.25260	-0.0000	0.00	0.0000	0.02
Norway	NO	6.43300	-0.0000	0.00	0.0000	0.02
Poland	PL	2.66980	-0.0011	0.00	-0.0018	-0.29
Portugal	PT	28.71820	-0.0023	0.00	-0.0012	-0.06
Romania	RO	8674.38800	-0.1040	-0.53	-1116.1040	-1.22
Spain	ES	6.93400	-0.0001	0.00	-0.0001	0.00
Slovakia	SK	38.56487	-0.0579	-0.15	-0.2503	-0.85
South Korea	KR	69.79500	-0.0520	-0.03	-0.014	-0.01
Sweden	SE	6.73140	-0.0714	-0.17	-0.0000	-0.00
Switzerland	CH	1.55393	-0.0024	-0.14	-0.0025	-0.10
Taiwan	TA	0.0000	0.0000	0.00	0.0000	0.00
United Kingdom	UK	0.98494	-0.0014	-0.29	-0.0059	-0.84
USSR	EU	1.701914	-0.0007	-0.07	-0.0001	-0.12
America						
Brazil	BR	1.30200	-0.0008	-0.52	-0.0023	1.09
Canada	CA	26.30400	-0.0000	0.00	-0.0000	0.00
Mexico	MX	0.0000	0.0000	0.00	0.0000	0.00
United States	US	1.13100	-0.0065	-0.58	-0.0140	1.25
Europe and Oceania						
Australia	AU	1.80937	-0.0102	-0.57	-0.0109	0.80
Hong Kong	HK	0.76424	-0.0479	-0.54	-0.1075	0.24
Japan	JP	105.10230	-0.048	-3.5055	-0.01	0.81
New Zealand	NZ	1.09640	-0.0047	-0.07	-0.0010	0.00
South Africa	ZA	0.81554	-0.0271	-0.47	-0.1189	0.29

Oil use is in million barrels per day. The table contains data for the years 1980-1995. The oil price is in dollars per barrel. The oil revenue is in billions of dollars. The oil exports are in million barrels per day. The oil imports are in million barrels per day. The oil balance is in million barrels per day. The oil deficit is in million barrels per day. The oil surplus is in million barrels per day. The oil stockpile is in million barrels. The oil production is in million barrels per day. The oil consumption is in million barrels per day. The oil reserves are in million barrels. The oil resources are in million barrels. The oil potential is in million barrels per day. The oil demand is in million barrels per day. The oil supply is in million barrels per day. The oil gap is in million barrels per day. The oil shortage is in million barrels per day. The oil excess is in million barrels per day. The oil balance is in million barrels per day. The oil deficit is in million barrels per day. The oil surplus is in million barrels per day. The oil stockpile is in million barrels. The oil production is in million barrels per day. The oil consumption is in million barrels per day. The oil reserves are in million barrels. The oil resources are in million barrels. The oil potential is in million barrels per day. The oil demand is in million barrels per day. The oil supply is in million barrels per day. The oil gap is in million barrels per day. The oil shortage is in million barrels per day. The oil excess is in million barrels per day. The oil balance is in million barrels per day. The oil deficit is in million barrels per day. The oil surplus is in million barrels per day. The oil stockpile is in million barrels. The oil production is in million barrels per day. The oil consumption is in million barrels per day. The oil reserves are in million barrels. The oil resources are in million barrels. The oil potential is in million barrels per day. The oil demand is in million barrels per day. The oil supply is in million barrels per day. The oil gap is in million barrels per day. The oil shortage is in million barrels per day. The oil excess is in million barrels per day. The oil balance is in million barrels per day. The oil deficit is in million barrels per day. The oil surplus is in million barrels per day. The oil stockpile is in million barrels. The oil production is in million barrels per day. The oil consumption is in million barrels per day. The oil reserves are in million barrels. The oil resources are in million barrels. The oil potential is in million barrels per day. The oil demand is in million barrels per day. The oil supply is in million barrels per day. The oil gap is in million barrels per day. The oil shortage is in million barrels per day. The oil excess is in million barrels per day. The oil balance is in million barrels per day. The oil deficit is in million barrels per day. The oil surplus is in million barrels per day. The oil stockpile is in million barrels. The oil production is in million barrels per day. The oil consumption is in million barrels per day. The oil reserves are in million barrels. The oil resources are in million barrels. The oil potential is in million barrels per day. The oil demand is in million barrels per day. The oil supply is in million barrels per day. The oil gap is in million barrels per day. The oil shortage is in million barrels per day. The oil excess is in million barrels per day. The oil balance is in million barrels per day. The oil deficit is in million barrels per day. The oil surplus is in million barrels per day. The oil stockpile is in million barrels. The oil production is in million barrels per day. The oil consumption is in million barrels per day. The oil reserves are in million barrels. The oil resources are in million barrels. The oil potential is in million barrels per day. The oil demand is in million barrels per day. The oil supply is in million barrels per day. The oil gap is in million barrels per day. The oil shortage is in million barrels per day. The oil excess is in million barrels per day. The oil balance is in million barrels per day. The oil deficit is in million barrels per day. The oil surplus is in million barrels per day. The oil stockpile is in million barrels. The oil production is in million barrels per day. The oil consumption is in million barrels per day. The oil reserves are in million barrels. The oil resources are in million barrels. The oil potential is in million barrels per day. The oil demand is in million barrels per day. The oil supply is in million barrels per day. The oil gap is in million barrels per day. The oil shortage is in million barrels per day. The oil excess is in million barrels per day. The oil balance is in million barrels per day. The oil deficit is in million barrels per day. The oil surplus is in million barrels per day. The oil stockpile is in million barrels. The oil production is in million barrels per day. The oil consumption is in million barrels per day. The oil reserves are in million barrels. The oil resources are in million barrels. The oil potential is in million barrels per day. The oil demand is in million barrels per day. The oil supply is in million barrels per day. The oil gap is in million barrels per day. The oil shortage is in million barrels per day. The oil excess is in million barrels per day. The oil balance is in million barrels per day. The oil deficit is in million barrels per day. The oil surplus is in million barrels per day. The oil stockpile is in million barrels. The oil production is in million barrels per day. The oil consumption is in million barrels per day. The oil reserves are in million barrels. The oil resources are in million barrels. The oil potential is in million barrels per day. The oil demand is in million barrels per day. The oil supply is in million barrels per day. The oil gap is in million barrels per day. The oil shortage is in million barrels per day. The oil excess is in million barrels per day. The oil balance is in million barrels per day. The oil deficit is in million barrels per day. The oil surplus is in million barrels per day. The oil stockpile is in million barrels. The oil production is in million barrels per day. The oil consumption is in million barrels per day. The oil reserves are in million barrels. The oil resources are in million barrels. The oil potential is in million barrels per day. The oil demand is in million barrels per day. The oil supply is in million barrels per day. The oil gap



Bilateral conversion rates against the D-Mark							
Year 26	Fixed rate	Market rate	Dev. last 12 mo.	Week-avg. %	Forward rate	Forward rate 183	Diff. last 12 mo.
Austria	7.83552	7.80667	+0.02	-0.02	7.0989	3.93	+0.08
Belgium	20.6259	20.6174	+0.04	+0.10	20.8204	3.77	-0.02
France	3.35386	3.35398	+0.00	+0.03	3.36394	3.72	-0.03
Italy	3.04001	3.03984	-0.02	-0.02	3.0415	3.87	+0.02
Philippines	0.642678	0.63974	-1.21	-1.37	0.64021	3.74	+0.19
Spain	166.3943	166.3943	0.00	-0.38	166.3943	3.72	+0.00
Switzerland	20.6255	20.6174	+0.04	+0.10	20.8204	3.77	-0.02
Luxembourg	1.19374	1.127	+0.02	+0.01	1.1269	3.74	-0.01
Portugal	102.305	102.432	-0.07	-0.00	102.7036	4.19	-0.44
Spain	165.972	64.9451	-0.15	-0.15	65.1761	4.21	-0.46

Debate



Mag. SS	End date	Coupons	SS & P rating	SS price	Std. bid	Days' price diff.	Mag's price diff.	SS price diff.
Barneys Fragrances								
Barneys fragrance set	03/08	5.75R	AA	108.270	5.03	-0.02	-0.06	+0.00
Barneys fragrance set	04/08	3.25R	AA	108.130	4.90	-0.01	-0.05	-0.00
Barneys fragrance set	05/08	3.00R	AA	108.020	5.98	+0.00	-0.12	+0.00
Barneys fragrance set	06/08	3.37R	AA	102.110	6.10	+0.00	-0.63	+0.00
Bebe Shirts								
Bebe H&M Trans Br	02/03	4.87R	AA	106.260	4.70	+0.00	-0.11	-0.00
Bebe Electric Cap Coll	10/04	3.50R	AA	103.140	4.91	-0.01	+0.00	+0.00
Bebe Electric Cap Coll	01/05	3.25R	AA	101.960	5.15	+0.00	-0.01	+0.00
Cost of Cash of Price	04/08	3.28R	AA	99.800	5.27	-0.01	-0.08	+0.00
Esprit Shirts								
Esprit Boyer & With Br	07/01	5.00R	AA	101.180	4.97	-0.02	+0.04	+0.00
Esprit Boyer & With Br	08/04	3.37R	AA	115.120	5.98	-0.08	-0.11	+0.00
Esprit Boyer & With Br	04/04	3.25R	AA	102.780	4.89	+0.00	-0.00	-0.00
Esprit Boyer & With Br	04/07	3.37R	AA	107.170	5.34	-0.01	-0.10	+0.00


May 20	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
--------	-------	-------	-------	--------	--------	--------

[illegible]


May 23	S & P rating	Red date	Comp	Currency code	Dividend
--------	-----------------	-------------	------	------------------	----------

	label	DF	DF1	LODF	LODF1	DF2	DF21	LODF2	LODF21
AFW	AAA	07/06	5.000	DFM	-0.02	-0.02	-0.17		
Polys Telosus	AA	11/08	5.000	HPF	-0.16	-0.14	-0.17		
Heffius	AA	07/07	5.828	DFM	-0.21	-0.19	-0.33		
Eng Bank W	AA	07/08	5.000	MLB	-0.17	-0.17	-0.33		
Polys Ws W Gk	AA	05/02	6.750	DFM	-0.34	-0.36	-0.68		
Oris Polosus	A	05/03	7.250	DFM	-0.33	-0.34	-0.60		
Polosus-Brandit	AA	05/04	8.375	HPF	-0.32	-0.31	-0.50		
Gerardus des Euse	BBB+	03/04	8.250	HPF	-0.28	-0.28	-0.57		
Blens of Chius	BBB	07/09	7.125	DFM	-0.63	-0.67	-0.62		
BBB of Hungary	BBB	06/01	8.000	ATI	-0.64	-0.67	-0.58		
Kornus Desi Duff	B+	11/02	5.825	HPF	-0.48	-0.42	-0.79		

Source: Interactive Data/First Data. Table shows yield spreads to the first curve for broadly representative credit in most rating bands discontinued in Euro '98 currency.

 **ABN·AMRO**

***"How will the euro affect the
European equity landscape?"***

the euro


You'll get more insights from ABN AMRO.

CURRENCIES & MONEY

Dollar tops Y137

By Richard Adams

With holidays in the UK and US creating thin trading conditions, the dollar jumped to its highest level against the yen for nearly seven years yesterday.

The dollar rose above Y137 following reports that Robert Rubin, the US Treasury Secretary, was prepared to see rates of Y140-Y150 to the dollar if that was necessary to kickstart Japan's moribund economy. The dollar closed at Y137.14, up from Y135.7 on Friday.

The dollar also headed a little higher against the D-Mark, as investors took profits on the D-Mark's strength against the yen. The D-Mark also gained against the Swedish krona after the Swedish central bank said it had not ruled out an interest rate cut.

With little in the way of economic data due to be released, international currency markets may struggle for direction, even with yesterday's holidays out of the way.

In the UK, only the release of global trade figures for March is likely to provide any excitement for sterling. The pound has been coasting downhill at a surprisingly rapid rate since the start of April. The currency now sits near the DM2.80 rate predicted by some not so long ago as its end-of-year level.

The fall reflects several factors: expectations that UK interest rates have peaked, along with a weaker US dollar against the D-Mark and suggestions of higher interest rates in both the eurozone and the US.

Reports of heavy forward selling of sterling, designed to hedge sterling exposure by Ecu bondholders, are likely to contribute to the drift downwards.

The pound's fall could be spurred on by Friday's figures show another poor performance on trade.

Last week's estimate of first-quarter GDP showed the trade deficit at a 74-year high, with imports outweighing exports by £3.6bn.

POUND SPOT FORWARD AGAINST THE POUND

May 26	Closing bid-ask	Change on day	Settlement	Day's bid-ask	One month	Three months	One year	Bank of England
Europe								
Germany	1.2345	+0.0010	1.2335	1.2335	1.2335	1.2335	1.2335	1.2335
France	1.2345	+0.0010	1.2335	1.2335	1.2335	1.2335	1.2335	1.2335
Italy	1.2345	+0.0010	1.2335	1.2335	1.2335	1.2335	1.2335	1.2335
Spain	1.2345	+0.0010	1.2335	1.2335	1.2335	1.2335	1.2335	1.2335
Sweden	1.2345	+0.0010	1.2335	1.2335	1.2335	1.2335	1.2335	1.2335
Switzerland	1.2345	+0.0010	1.2335	1.2335	1.2335	1.2335	1.2335	1.2335
Japan	1.2345	+0.0010	1.2335	1.2335	1.2335	1.2335	1.2335	1.2335
South Africa	1.2345	+0.0010	1.2335	1.2335	1.2335	1.2335	1.2335	1.2335
Canada	1.2345	+0.0010	1.2335	1.2335	1.2335	1.2335	1.2335	1.2335
USA	1.2345	+0.0010	1.2335	1.2335	1.2335	1.2335	1.2335	1.2335
Other	1.2345	+0.0010	1.2335	1.2335	1.2335	1.2335	1.2335	1.2335

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

May 26	Closing bid-ask	Change on day	Settlement	Day's bid-ask	One month	Three months	One year	Bank of England
Europe								
Germany	1.2345	+0.0010	1.2335	1.2335	1.2335	1.2335	1.2335	1.2335
France	1.2345	+0.0010	1.2335	1.2335	1.2335	1.2335	1.2335	1.2335
Italy	1.2345	+0.0010	1.2335	1.2335	1.2335	1.2335	1.2335	1.2335
Spain	1.2345	+0.0010	1.2335	1.2335	1.2335	1.2335	1.2335	1.2335
Sweden	1.2345	+0.0010	1.2335	1.2335	1.2335	1.2335	1.2335	1.2335
Switzerland	1.2345	+0.0010	1.2335	1.2335	1.2335	1.2335	1.2335	1.2335
Japan	1.2345	+0.0010	1.2335	1.2335	1.2335	1.2335	1.2335	1.2335
South Africa	1.2345	+0.0010	1.2335	1.2335	1.2335	1.2335	1.2335	1.2335
Canada	1.2345	+0.0010	1.2335	1.2335	1.2335	1.2335	1.2335	1.2335
USA	1.2345	+0.0010	1.2335	1.2335	1.2335	1.2335	1.2335	1.2335
Other	1.2345	+0.0010	1.2335	1.2335	1.2335	1.2335	1.2335	1.2335

WORLD INTEREST RATES

May 26	Overnight	One month	Three months	Six months	One year	Two years	Three years	Five years	Ten years
Germany	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
France	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Italy	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Spain	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Sweden	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Switzerland	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Japan	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
South Africa	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Canada	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
USA	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Other	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50

EURO CURRENCY INTEREST RATES

May 26	Overnight	One month	Three months	Six months	One year	Two years	Three years	Five years	Ten years
Germany	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
France	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Italy	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Spain	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Sweden	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Switzerland	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Japan	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
South Africa	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Canada	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
USA	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Other	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50

CROSS RATES AND DERIVATIVES

May 26	Overnight	One month	Three months	Six months	One year	Two years	Three years	Five years	Ten years
Germany	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
France	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Italy	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Spain	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Sweden	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Switzerland	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Japan	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
South Africa	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Canada	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
USA	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Other	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50

UK GILTS PRICES

May 26	Overnight	One month	Three months	Six months	One year	Two years	Three years	Five years	Ten years
Germany	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
France	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Italy	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Spain	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Sweden	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Switzerland	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Japan	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
South Africa	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Canada	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
USA	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Other	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50

EURO CURRENCY INTEREST RATES

May 26	Overnight	One month	Three months	Six months	One year	Two years	Three years	Five years	Ten years
Germany	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
France	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Italy	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Spain	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Sweden	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Switzerland	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Japan	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
South Africa	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Canada	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
USA	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Other	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50

CROSS RATES AND DERIVATIVES

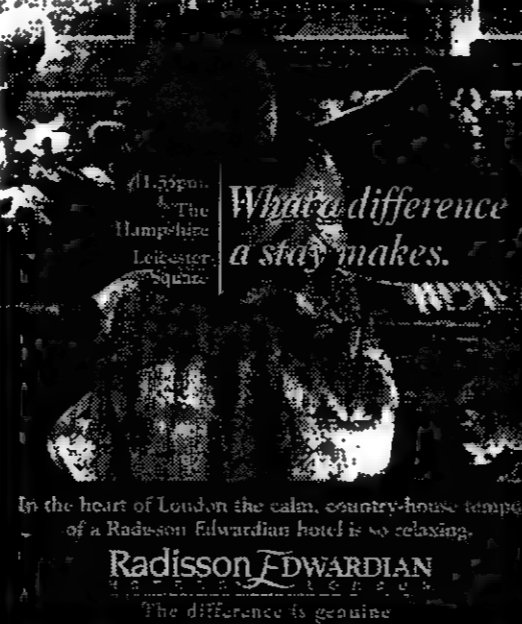
May 26	Overnight	One month	Three months	Six months	One year	Two years	Three years	Five years	Ten years
Germany	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
France	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Italy	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Spain	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Sweden	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Switzerland	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Japan	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
South Africa	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Canada	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
USA	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Other	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50

UK GILTS PRICES

May 26	Overnight	One month	Three months	Six months	One year	Two years	Three years	Five years	Ten years
Germany	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
France	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Italy	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Spain	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Sweden	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Switzerland	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Japan	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
South Africa	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Canada	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
USA	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Other	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50

EURO CURRENCY INTEREST RATES

3.150	4/26	4/26	14.1	1200																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																															
-------	------	------	------	------	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--



At the top of the page, there is a line of small text: "© 1999 Radisson Hotels Ltd. All rights reserved. Reproduction in whole or in part without permission is prohibited." Below this, on the left side, is the text "The Hampton Leinster Square." In the center, the headline reads "What a difference a stay makes." At the bottom left, it says "In the heart of London the calm, country-house tempo of a Radisson Edwardian hotel is so relaxing." The bottom center features the "Radisson EDWARDIAN" logo, with "A Radisson Hotel" written in smaller text below it. At the bottom right, it says "The difference is genuine." At the very bottom, there is a line for reservations: "RESERVATIONS (UK) 0800 37 44 11 (USA) 1-800-333-3353".

© 1999 Radisson Hotels Ltd. All rights reserved. Reproduction in whole or in part without permission is prohibited.

The Hampton Leinster Square.

What a difference a stay makes.

In the heart of London the calm, country-house tempo of a Radisson Edwardian hotel is so relaxing.

Radisson EDWARDIAN
A Radisson Hotel

The difference is genuine.

RESERVATIONS (UK) 0800 37 44 11 (USA) 1-800-333-3353

[illegible][illegible][illegible]

4 not close May 22

Country	Commodity	Unit	Price	Change	% Change	Country	Commodity	Unit	Price	Change	% Change
USA	Almonds	100 lbs	12.50	0.00	0.00	USA	Walnuts	100 lbs	10.00	0.00	0.00
USA	Apples	100 lbs	1.50	0.00	0.00	USA	Wheat	100 lbs	1.00	0.00	0.00
USA	Bananas	100 lbs	0.50	0.00	0.00	USA	Yams	100 lbs	0.80	0.00	0.00
USA	Cashews	100 lbs	15.00	0.00	0.00	USA	Zucchini	100 lbs	0.60	0.00	0.00
USA	Chickpeas	100 lbs	2.00	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Citrus	100 lbs	1.80	0.00	0.00	USA	Blueberries	100 lbs	1.50	0.00	0.00
USA	Corn	100 lbs	0.80	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Cotton	100 lbs	0.40	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Cucumbers	100 lbs	0.70	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Dates	100 lbs	1.00	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Flour	100 lbs	0.60	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Fruit	100 lbs	1.00	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Grapes	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Guavas	100 lbs	0.90	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Hazelnuts	100 lbs	12.00	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Hearts of Palm	100 lbs	0.80	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Hot Peppers	100 lbs	0.50	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Jams	100 lbs	0.80	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Kiwi	100 lbs	0.70	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Lentils	100 lbs	1.50	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Limes	100 lbs	0.60	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Mangoes	100 lbs	1.00	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Maple Syrup	100 lbs	1.50	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Melons	100 lbs	0.80	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Mint	100 lbs	0.50	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Molasses	100 lbs	0.80	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Mustard	100 lbs	0.50	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Nectarines	100 lbs	1.00	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Onions	100 lbs	0.60	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Oranges	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Peanut Butter	100 lbs	1.50	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Peanut Oil	100 lbs	1.00	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Pears	100 lbs	1.00	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Pineapples	100 lbs	0.80	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Pistachios	100 lbs	15.00	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Potatoes	100 lbs	0.80	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Pumpkins	100 lbs	0.80	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Raspberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Rice	100 lbs	0.80	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Rhubarb	100 lbs	0.80	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Sage	100 lbs	0.50	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Salmon	100 lbs	1.00	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Soybeans	100 lbs	0.80	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Squash	100 lbs	0.80	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Strawberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Sweet Potatoes	100 lbs	0.80	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Tomatoes	100 lbs	0.80	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Turnips	100 lbs	0.80	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Vanilla	100 lbs	1.00	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Watermelons	100 lbs	0.80	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Whole Wheat Flour	100 lbs	0.60	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Yams	100 lbs	0.80	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Zucchini	100 lbs	0.60	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blueberries	100 lbs	1.50	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs	1.20	0.00	0.00
USA	Blackberries	100 lbs	1.20	0.00	0.00	USA	Blackberries	100 lbs			

GLOBAL EQUITY MARKETS

US INDICES									
Index	May 22	May 21	May 20	1998	High	Low	Since completion	Low	
Dow Jones	9114.44	9132.37	9171.48	8211.88	7580.42	8214.84	41.29		
Industrials	104.14	104.82	104.84	105.48	103.98	105.48	1.50		
Bank	104.75	104.82	104.84	105.48	103.98	105.48	1.50		
Transport	3394.58	3381.87	3386.75	3686.82	3194.36	3686.82	13.20		
Utilities	280.05	280.26	281.29	281.18	282.85	281.18	0.75		
Oil & Gas	41.54	41.54	41.54	41.54	41.54	41.54	0.00		
Gold	415.44	415.44	415.44	415.44	415.44	415.44	0.00		
US 10-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 30-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 1-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 6-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 3-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 15-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 20-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 25-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 30-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 1-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 6-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 3-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 15-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 20-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 25-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 30-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 1-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 6-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 3-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 15-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 20-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 25-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 30-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 1-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 6-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 3-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 15-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 20-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 25-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 30-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 1-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 6-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 3-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 15-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 20-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 25-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 30-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 1-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 6-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 3-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 15-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 20-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 25-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 30-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 1-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 6-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 3-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 15-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 20-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 25-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 30-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 1-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 6-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 3-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 15-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 20-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 25-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 30-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 1-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 6-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 3-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 15-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 20-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 25-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 30-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 1-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 6-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 3-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 15-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 20-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 25-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 30-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 1-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 6-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 3-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 15-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 20-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 25-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 30-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 1-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 6-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 3-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 15-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 20-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 25-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 30-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 1-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 6-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 3-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 15-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 20-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 25-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 30-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 1-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 6-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 3-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 15-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 20-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 25-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 30-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 1-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 6-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 3-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 15-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 20-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 25-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 30-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 1-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 6-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 3-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 15-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 20-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 25-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 30-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 1-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 6-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 3-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 15-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 20-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 25-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 30-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 1-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 6-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 3-month T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 15-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 20-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 25-yr T-bill	6.82	6.82	6.82	6.82	6.82	6.82	0.00		
US 30-yr T-bill	6.82	6.82							

[illegible]

THE NASDAQ STOCK MARKET

[illegible]

THE NASDAQ STOCK MARKET

NYSE										NASDAQ										
Stock	High	Low	Open	Close	Change	Volume	Stock	High	Low	Open	Close	Change	Volume	Stock	High	Low	Open	Close	Change	Volume
IBM	122	122	122	122	0	100	IBM	122	122	122	122	0	100	IBM	122	122	122	122	0	100
Microsoft	122	122	122	122	0	100	Microsoft	122	122	122	122	0	100	Microsoft	122	122	122	122	0	100
Oracle	122	122	122	122	0	100	Oracle	122	122	122	122	0	100	Oracle	122	122	122	122	0	100
Amazon	122	122	122	122	0	100	Amazon	122	122	122	122	0	100	Amazon	122	122	122	122	0	100
Google	122	122	122	122	0	100	Google	122	122	122	122	0	100	Google	122	122	122	122	0	100
Facebook	122	122	122	122	0	100	Facebook	122	122	122	122	0	100	Facebook	122	122	122	122	0	100
Twitter	122	122	122	122	0	100	Twitter	122	122	122	122	0	100	Twitter	122	122	122	122	0	100
LinkedIn	122	122	122	122	0	100	LinkedIn	122	122	122	122	0	100	LinkedIn	122	122	122	122	0	100
Slack	122	122	122	122	0	100	Slack	122	122	122	122	0	100	Slack	122	122	122	122	0	100
Zoom	122	122	122	122	0	100	Zoom	122	122	122	122	0	100	Zoom	122	122	122	122	0	100
Dropbox	122	122	122	122	0	100	Dropbox	122	122	122	122	0	100	Dropbox	122	122	122	122	0	100
Spotify	122	122	122	122	0	100	Spotify	122	122	122	122	0	100	Spotify	122	122	122	122	0	100
Netflix	122	122	122	122	0	100	Netflix	122	122	122	122	0	100	Netflix	122	122	122	122	0	100
Amazon	122	122	122	122	0	100	Amazon	122	122	122	122	0	100	Amazon	122	122	122	122	0	100
Google	122	122	122	122	0	100	Google	122	122	122	122	0	100	Google	122	122	122	122	0	100
Facebook	122	122	122	122	0	100	Facebook	122	122	122	122	0	100	Facebook	122	122	122	122	0	100
Twitter	122	122	122	122	0	100	Twitter	122	122	122	122	0	100	Twitter	122	122	122	122	0	100
LinkedIn	122	122	122	122	0	100	LinkedIn	122	122	122	122	0	100	LinkedIn	122	122	122	122	0	100
Slack	122	122	122	122	0	100	Slack	122	122	122	122	0	100	Slack	122	122	122	122	0	100
Zoom	122	122	122	122	0	100	Zoom	122	122	122	122	0	100	Zoom	122	122	122	122	0	100
Dropbox	122	122	122	122	0	100	Dropbox	122	122	122	122	0	100	Dropbox	122	122	122	122	0	100
Spotify	122	122	122	122	0	100	Spotify	122	122	122	122	0	100	Spotify	122	122	122	122	0	100
Netflix	122	122	122	122	0	100	Netflix	122	122	122	122	0	100	Netflix	122	122	122	122	0	100
Amazon	122	122	122	122	0	100	Amazon	122	122	122	122	0	100	Amazon	122	122	122	122	0	100
Google	122	122	122	122	0	100	Google	122	122	122	122	0	100	Google	122	122	122	122	0	100
Facebook	122	122	122	122	0	100	Facebook	122	122	122	122	0	100	Facebook	122	122	122	122	0	100
Twitter	122	122	122	122	0	100	Twitter	122	122	122	122	0	100	Twitter	122	122	122	122	0	100
LinkedIn	122	122	122	122	0	100	LinkedIn	122	122	122	122	0	100	LinkedIn	122	122	122	122	0	100
Slack	122	122	122	122	0	100	Slack	122	122	122	122	0	100	Slack	122	122	122	122	0	100
Zoom	122	122	122	122	0	100	Zoom	122	122	122	122	0	100	Zoom	122	122	122	122	0	100
Dropbox	122	122	122	122	0	100	Dropbox	122	122	122	122	0	100	Dropbox	122	122	122	122	0	100
Spotify	122	122	122	122	0	100	Spotify	122	122	122	122	0	100	Spotify	122	122	122	122	0	100
Netflix	122	122	122	122	0	100	Netflix	122	122	122	122	0	100	Netflix	122	122	122	122	0	100
Amazon	122	122	122	122	0	100	Amazon	122	122	122	122	0	100	Amazon	122	122	122	122	0	100
Google	122	122	122	122	0	100	Google	122	122	122	122	0	100	Google	122	122	122	122	0	100
Facebook	122	122	122	122	0	100	Facebook	122	122	122	122	0	100	Facebook	122	122	122	122	0	100
Twitter	122	122	122	122	0	100	Twitter	122	122	122	122	0	100	Twitter	122	122	122	122	0	100
LinkedIn	122	122	122	122	0	100	LinkedIn	122	122	122	122	0	100	LinkedIn	122	122	122	122	0	100
Slack	122	122	122	122	0	100	Slack	122	122	122	122	0	100	Slack	122	122	122	122	0	100
Zoom	122	122	122	122	0	100	Zoom	122	122	122	122	0	100	Zoom	122	122	122	122	0	100
Dropbox	122	122	122	122	0	100	Dropbox	122	122	122	122	0	100	Dropbox	122	122	122	122	0	100
Spotify	122	122	122	122	0	100	Spotify	122	122	122	122	0	100	Spotify	122	122	122	122	0	100
Netflix	122	122	122	122	0	100	Netflix	122	122	122	122	0	100	Netflix	122	122	122	122	0	100
Amazon	122	122	122	122	0	100	Amazon	122	122	122	122	0	100	Amazon	122	122	122	122	0	100
Google	122	122	122	122	0	100	Google	122	122	122	122	0	100	Google	122	122	122	122	0	100
Facebook	122	122	122	122	0	100	Facebook	122	122	122	122	0	100	Facebook	122	122	122	122	0	100
Twitter	122	122	122	122	0	100	Twitter	122	122	122	122	0	100	Twitter	122	122	122	122	0	100
LinkedIn	122	122	122	122	0	100	LinkedIn	122	122	122	122	0	100	LinkedIn	122	122	122	122	0	100
Slack	122	122	122	122	0	100	Slack	122	122	122	122	0	100	Slack	122	122	122	122	0	100
Zoom	122	122	122	122	0	100	Zoom	122	122	122	122	0	100	Zoom	122	122	122	122	0	100
Dropbox	122	122	122	122	0	100	Dropbox	122	122	122	122	0	100	Dropbox	122	122	122	122	0	100
Spotify	122	122	122	122	0	100	Spotify	122	122	122	122	0	100	Spotify	122	122	122	122	0	100
Netflix	122	122	122	122	0	100	Netflix	122	122	122	122	0	100	Netflix	122	122	122	122	0	100
Amazon	122	122	122	122	0	100	Amazon	122	122	122	122	0	100	Amazon	122	122	122	122	0	100
Google	122	122	122	122	0	100	Google	122	122	122	122	0	100	Google	122	122	122	122	0	100
Facebook	122	122	122	122	0	100	Facebook	122	122	122	122	0	100	Facebook	122	122	122	122	0	100
Twitter	122	122	122	122	0	100	Twitter	122	122	122	122	0	100	Twitter	122	122	122	122	0	100
LinkedIn	122	122	122	122	0	100	LinkedIn	122	122	122	122	0	100	LinkedIn	122	122	122	122	0	100
Slack	122	122	122	122	0	100	Slack	122	122	122	122	0	100	Slack	122	122	122	122	0	100
Zoom	122	122	122	122	0	100	Zoom	122	122	122	122	0	100	Zoom	122	122	122	122	0	100
Dropbox	122	122	122	122	0	100	Dropbox	122	122	122	122	0	100	Dropbox	122	122	122	122	0	100
Spotify	122	122	122	122	0	100	Spotify	122	122	122	122	0	100	Spotify	122	122	122	122	0	100
Netflix	122	122	122	122	0	100	Netflix	122	122	122	122	0	100	Netflix	122	122	122	122	0	100
Amazon	122	122	122	122	0	100	Amazon	122	122	122	122	0	100	Amazon	122	122	122	122	0	100
Google	122	122	122	122	0	100	Google	122	122	122	122	0	100	Google	122	122	122	122	0	100
Facebook	122	122	122	122	0	100	Facebook	122	122	122	122	0	100	Facebook	122	122	122	122	0	100
Twitter	122	122	122	122	0	100	Twitter	122	122	122	122	0	100	Twitter	122	122	122	122	0	100
LinkedIn	122	122	122	122	0	100	LinkedIn	122	122	122	122	0	100	LinkedIn	122	122	122	122	0	100
Slack	122	122	122	122	0	100	Slack	122	122	122	122	0	100	Slack	122	122	122	122	0	100
Zoom	122	122	122	122	0	100	Zoom	122	122	122	122	0	100	Zoom	122	122	122	122	0	100
Dropbox	122	122	122	122	0	100	Dropbox	122	122	122	122	0	100	Dropbox	122	122	122	122	0	100
Spotify	122	122	122	122	0	100	Spotify	122	122	122	122	0	100	Spotify	122	122	122	122	0	100
Netflix	122	122	122	122	0	100	Netflix	122	122	122	122	0	100	Netflix	122	122	122	122	0	100
Amazon	122	122	122	122	0	100	Amazon	122	122	122	122	0	100	Amazon	122	122	122	122	0	100
Google	122	122	122	122	0	100	Google	122	122	122	122	0	100	Google	122	122	122	122	0	100
Facebook	122	122	122	122	0	100	Facebook	122	122	122	122	0	100	Facebook	122	122	122	122		

BRAZILIAN PRIVATISATION

World Cup fever will hold sway into July but, reports Geoff Dyer, the month boasts an event of greater long-term significance — the next wave of sell-offs, led by Telebrás

Economy hanging on call to markets

If all goes to plan, July will be an epic month in Brazil's recent history. And that is even if the national team does not walk off with the football World Cup again.

During the course of the month, the Brazilian government plans to transfer from public to private hands a series of companies which, taken together, could raise more than \$25bn.

The list includes Telebrás, the state-controlled telecoms group and largest company in Latin America in terms of market capitalisation. Gersul, the first of Brazil's huge electricity generation companies to be put up for auction, a couple of electricity distributors and, maybe, a gas company.

Brazil has been slowly privatising its industry since the beginning of the decade and the process has gathered momentum over the last year. However, in July it will step up another couple of gears.

The sale of Telebrás alone is expected to raise around \$20bn, making it easily the largest ever privatisation in Latin America. While this might not seem staggering in comparison to some of the recent takeovers in the US, it is a daunting figure for a developing economy.

Economists' back-of-the-envelope estimates suggest that the government will sell \$20bn of assets over the next three years.

The impact of a successful privatisation programme in Brazil would be felt throughout the Latin American economy. With inflation under control in Brazil, privatisation is one of the central planks of a strategy which could turn the country from an economic basket-case into the region's superpower.

Privatisation is helping galvanise an economy whose stagnation in the 1980s and early 1990s was due, in part, to the heavy and stifling influence of the state on economic activity. "We are dismantling the state apparatus that was put together from the 1980s during the Vargas era [former president and dictator]," says Paulo Paiva, the planning minister.

Billions of dollars are being attracted into vital industries, such as telecoms and power, whose infrastructures were neglected during the economic instability of the 1980s.

Luiz Carlos Mendonça de Barros, the new communications minister, estimates that the Telebrás system will receive new investment of around \$15bn a year once it is privatised — double the current rate.

His predecessor, Sérgio Motta, who died in March, was fond of saying that \$100bn would be invested in the telecommunications industry as a whole by the end of the decade as a result of privatisation. New tech-

nology will also be introduced to an industry which is central to a country's economic development.

Indeed, if the sale of Telebrás is a success, it could act as a case study for the positive aspects of privatisation. An expanded telephone network could play a role in democratising economic relations in Brazil's notoriously unequal society. As a result of decades of under-investment, a new line in São Paulo or Rio de Janeiro can cost \$200, making access to a telephone a privilege of the middle classes.

Unlike most previous privatisations in Brazil, which have resulted in savage job cuts, it should lead to increased employment as the new operators roll out increased capacity.

A successful sale of Telebrás would rank as a colossal political achievement for the government and a further stage in the recognition of Brazil as a serious country. When Fernando Henrique Cardoso was elected president in 1994, the privatisation of Telebrás was only a distant possibility. Under Mr Motta's pragmatic and occasionally eccentric guidance, the necessary legislation has been pushed through Congress, a sensible new structure for the industry developed and an independent regulator put in place.

There is, therefore, a lot at stake over the sale of Telebrás. At the same time, though, the company is being put up for sale at what can only be described as a difficult moment for the privatisation programme. The failure of the auction raised a whole series of questions. Has the Asian economic crisis, which had a



Call waiting: President Cardoso's plans to sell \$25bn of state assets, led by Telebrás, could establish Brazil as Latin America's economic superpower

The April auction of Eletropaulo, the São Paulo electricity company, has prompted a rethink about the whole privatisation process. Eletropaulo was first divided into two distribution units and a transmission business. However, only one bid was made for Metropoli-tana, the larger of the two distribution companies and there were no offers for Bandeirantes, the other distribution unit, or for the transmission company.

"It was a wake-up call," says Octávio Castello Branco, managing director at JP Morgan in São Paulo. Luiz Chrysostomo, head of investment banking at Banco Patrimônio, who is advising the government on the sale of Telebrás, described it as "a moment for reflection".

The failure of the auction raised a whole series of questions. Has the Asian economic crisis, which had a

huge impact on Brazilian financial markets, started to take its toll on Brazil's privatisation programme? Is the government trying to sell too many assets at the same time? Are the minimum prices being asked too high?

Most of all, the Eletropaulo sale has focused attention on the availability of financing. Bankers are beginning to express concerns about whether there will be sufficient funds to finance the huge volume of privatisation deals in the pipeline.

The banking system faces considerable demands on its resources. As well as the near \$25bn of privatisations competing for funds over the next few months, Petrobrás, the state-controlled oil company, is trying to put together two project financings valued at around \$8bn and, this year, a number of refinancings in the market for privatisations from last

year. The new owners of privatised companies will also want to borrow to finance investment programmes.

"It is not out of the question that there could be a crunch," says Floris Deckers, director for Latin America at ABN Amro, the Dutch banking group.

The 10 or so large banks which have underwritten previous privatisations are still committed to Brazil, which suggests that the funds will be available for the one-year bridge financings that usually accompany these deals. In most privatisations, the winning bidder has been specially created consortia, usually involving both foreign and Brazilian partners.

However, doubts exist further down the chain. The smaller regional banks, which last year were happy to participate in large syndicates, scaled back significantly their Brazil exposure

after the Asian crisis and have not yet returned in numbers.

Sentiment in the capital markets has rebounded more strongly since the beginning of the year, with the government and well-known banks comfortably accessing bond markets. However, the appetite among institutional investors for Brazilian corporate debt is still unclear.

A key test will be the planned bond issue by VBC, a consortium of three leading Brazilian corporates, which in November bought CPFL, another São Paulo electricity distribution company. The main banks will need to feel comfortable about demand for Brazil risk in the secondary banking market and in the capital markets before they put their weight behind the upcoming privatisations.

If there is a financing crunch, the success of the sell-off will then depend on

the willingness of foreign companies to take large chunks of debt on their own balance sheets, rather than borrow through the consortiums set up to bid in the privatisations.

Bankers do not believe this will be a problem with Telebrás, given the growth potential and one-off nature of the privatisation. However, in other sectors, where there will be more privatisation opportunities in the coming months, some bidders might take a more cautious approach.

But not everyone is worried about a financing squeeze. "Since 1991 people have been warning about lack of financing for privatisations but the government keeps selling," says Paulo Ferraz, president of Bozano Simoes, the Rio de Janeiro investment bank. "The liquidity for Brazil is much higher than it has been at any time in our history."

US\$
6,427,000,000

In 1997 Banco Icatu distinguished itself as a leader in M&A advisory in Brazil. With transactions totalling US\$ 6.4 billion, it ranked second in Brazil and fifth in Latin America according to Securities Data Company.

Banco Icatu specializes in originating, structuring and financing investment opportunities for its institutional clients. In 1997, we executed a number of unique transactions on behalf of Brazil's major institutional investors.

Privatization of Companhia Vale do Rio Doce (CVRD)
- Icatu's clients invested US\$ 1,500,000,000 in the capital stock of Valepar S.A.
- The total share of the consortium at the privatization auction amounted to US\$ 3,100,000,000

Privatization of Companhia Paulista de Força e Luz (CPFL)
- Icatu's clients invested US\$ 530,000,000 in the capital of the holding company DOC 4, acquiring control of CPFL.
- Total participation of DOC 4 equalled US\$ 2,720,000,000.

Privatization of Companhia Energética do Rio Grande do Norte (COSERN) - Icatu's clients invested US\$ 34,000,000 in the capital of the consortium, comprising COELBA and Guarani S.A. Total investment of the consortium was US\$ 607,000,000.

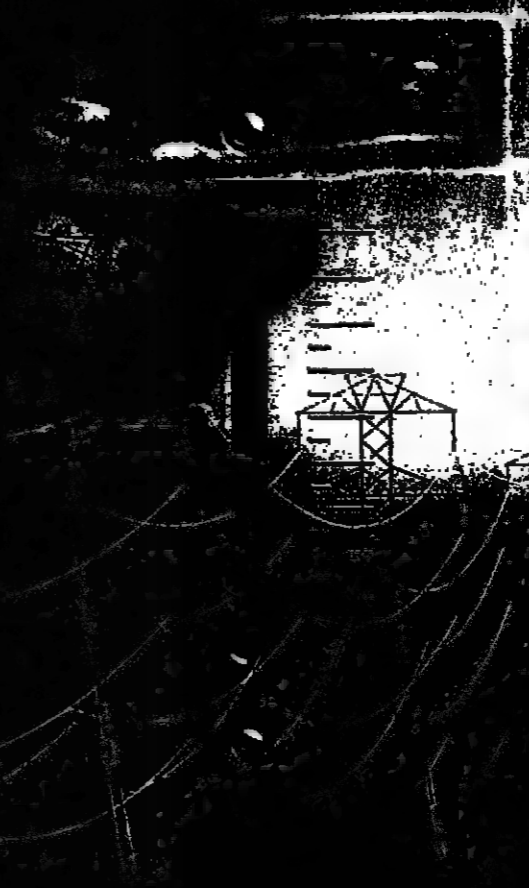
If you want an experienced business partner who talks the language of Brazil, you should talk to us.

• Carlos Gustavo Simas tel: (5521) 217 1419 - E-mail: csimas@icatu.com.br
• Eduardo Almeida tel: (5521) 217 1940 - E-mail: ealmeida@icatu.com.br
• José Kaid Neto tel: (5511) 3040 4534 - E-mail: jkaid@icatu.com.br

Icatu
Investments are our business.

THE PERFECTION
IN CESP'S DISTRIBUTION SYSTEM
RANKS IT AMONGST THE BEST.

- Best index as to the average period energy was not available for each client.
- Best index as to the average number of energy interruptions.
- Best index as to the average waiting time for energy re-establishment.



As you can see, CESP is the best electric energy distributor in the country. In a research carried out among its 1,040,000 clients, CESP registered a 98% satisfaction index regarding its services. This is why CESP won the Electricity Award of 1997.

CESP is continuously working to live up to its clients' highest expectations.

CESP

CESP 1997
Awardeado

SAO PAULO • by Geoff Dyer

Waking up in state of alarm

Two failed sales have thrown the programme and local government into disarray

The April 15 auction of Eletropaulo, the electricity distribution company controlled by the state of São Paulo, provided something of a cold shower for everyone involved in Brazil's privatisation programme.

On paper, the auction should have been a great success. Eletropaulo is the largest electricity distributor in Latin America: its sales nearly surpass the whole of Argentina's power network and its São Paulo base is arguably the most sophisticated regional economy in the continent.

Yet when Eletropaulo was put up for sale - after being divided into two distribution companies and one transmission unit - the auction was little short of a disaster.

Only one bidder appeared for Eletropaulo, the larger of the distribution companies, which was sold for its minimum price of R\$2.03bn to Light, the Rio de Janeiro energy group. However, a

worse fate awaited Bandeirantes and EPTB, the transmission unit, which failed to attract any buyers.

The failure of the auction has left São Paulo's privatisation plans in disarray.

The state had already been forced to postpone the March sale of Elektro, another electricity distributor which is controlled by CESP, the state-owned power generation company, after the stock exchange regulator questioned the treatment of minority shareholders under the sale model.

Meanwhile, the planned sale of Elektro itself has been put on the back burner while the federal government puts in place a new structure for the industry.

Given that São Paulo is by far the most important state in economic terms, its privatisation programme is central to the whole process. And the delays are proving a major political embarrassment to Mario Covas, the governor, who plans to stand for re-election later this year.

So what went wrong? Whether it was lack of financing, indecision on the part of buyers or poor structuring of the deals, the implications

are considerable for the rest of the programme.

"The auction was a wake-up call for everyone involved in the process," said Octávio Castello Branco, managing director of JP Morgan in São Paulo. "It showed that things don't always go smoothly."

The Eletropaulo auction suffered from a whole series of one-off problems. One of the potential bidders, Escelsa, had to pull out because it failed to complete the necessary paper work on time.

Analysts believe that speculation before the auction about large bids from Light and VBC, another Brazilian group, may have prompted some rivals to hold their fire for later privatisations.

The huge success of electricity privatisations last year, when bids were often much more than the minimum asking price, may have encouraged the São Paulo government to set its minimum price too high. Several bankers believe that the minimum price of R\$2.03bn for Eletropaulo and R\$1.01bn for Bandeirantes looked over-ambitious in the post-Asia crisis economic climate in Brazil.

Opponents of the São Paulo government and its advisers, Morgan Stanley Dean Witter and SBC Warburg Dillon Read, have had a field day. Criticisms of the way the sale was managed have included the fact that the government tried to sell both distribution companies on the same day and that it chose to divide Eletropaulo into three large units rather than several smaller ones.

Others have pointed out that up to a few days before the auction, some bidders were still not certain about how the government planned to divide employee pension liabilities between the companies.

"The worst thing that can happen with foreign bidders when they go to the tropics is for there to be worries about future labour or environmental liabilities," says one banker who was advising a potential bidder. However, there are more general lessons which apply to all prospective sales. The Eletropaulo sale has focused attention on the availability of financing for large deals in Brazil as a result of the Asian crisis.

"The crisis prompted a flight to safety amongst

investors," says André Monteiro Filho, the São Paulo planning secretary who is responsible for the privatisation process. "The markets have not yet returned to their pre-crisis levels."

The sheer weight of sales is also taking a toll on bidders who tend only to have a small team of professionals dedicated to foreign acquisitions. For example, Endesa, the Spanish power group, withdrew from the Eletropaulo auction because its people were too busy coming to terms with the complexities of Coelce, the electricity distributor in Ceará state which it had bought only weeks before.

"There is indignation among the buyers. They do not have enough people to look at all these deals," says Nigel Burton of SBC Warburg Dillon Read.

Most observers agree that closer co-ordination is needed between the different state and federal governments to avoid clashes.

So where does the São Paulo government go from here?

The first course of action is likely to be the sale of Elektro which has been rescheduled for July 16, follow-



Power loss: after the success of CPFL, Governor Covas's Eletropaulo sale fell flat

ing approval by the authorities of a new sale model. All the proceeds from the sale, which has a minimum price of R\$2.03bn, will go to CESP rather than to the state government.

There are no legal obstacles to putting Bandeirantes up for auction again but the government does face the thorny issue of the minimum price. A lower price

could ensure a better response from bidders but would be hard to explain politically, especially in the run-up to the gubernatorial election in October. The option has been ruled out for now.

"I have complete confidence that Bandeirantes is a good company and that it is not over-valued," says Mr Monteiro Filho.

Some believe the Eletropaulo difficulties represent only a minor setback for the São Paulo government.

According to Paulo Ferraz, president of Bozano Simonsen, the Rio de Janeiro investment bank: "If there is a strong pick-up in the market in the second half of the year, Bandeirantes could easily be sold for a price far in excess of the minimum."

MANDATES • by Leslie Crawford

Investing in the future

Bankers are trimming margins to buy a foot in the door for long-term profit

Investment banking in Brazil is a market long on players and short on profits, with recent competition for privatisation mandates driving fees to record lows.

The contract to handle the sale of Telebrás, Latin America's biggest privatisation, made headlines in February. Morgan Stanley and Salomon Brothers won the mandate to advise the Brazilian government with an unusually low fee of 0.07 per cent of the value of the sale, which is expected to raise between \$20bn and \$30bn. A team including Merrill Lynch, ABN Amro, NDM Rothschild and CSFB came second after scoring highest on technical merit but with a remuneration margin of 0.1 per cent. Previous privatisations had attracted fees of 1.5 per cent.

The winners claim the size of the Telebrás sale will ensure a profit. Rivals are sceptical. "At those sort of fees the business is not profitable," says Alfredo Gutierrez, chairman of the Brazil management committee of JP Morgan.

The result of the Telebrás contest reflects the willingness of international investment banks to accept extremely low margins in order to establish a franchise in Brazil.

In the aftermath of the privatisation programme the new owners of telecommunications companies, not to mention the even larger energy industry, will need advisers and financing and will probably want to raise equity. They will require long-term finance for expansion programmes. A few years from now, investment bankers are forecasting a new wave of mergers and acquisitions, as privatised companies consolidate.

Bankers also predict it will not be long before Brazilian corporations feel able to take their first steps in the global marketplace by expanding overseas.

Rhazar de Carvalho Filho, head of SBC Warburg, says: "Investment banks need to take a long-term view of Brazil. Some may be discouraged by competition but the potential of the market is huge. One must look for opportunities to forge long-term relationships with clients, even if fees are not profitable."

Most foreign investment banks have yet to decide the size of their commitment to Brazil. Nomura and Oppenheimer pulled out last year, citing an overcrowded market. A disappointing year for equities also led ING Barings and HSBC James Capel to shut down their Latin American equity-dealing businesses.

Others are putting roots down in Brazil. Robert Fleming and SBC Warburg have bought local investment banks, while CSFB is in talks to acquire Garantia,

one of the biggest names in Brazilian investment banking.

Following the Telebrás contract, 12 banks bid for the mandate to partially privatise Sabesp, the São Paulo sewerage and water treatment utility which is also the largest sanitation company in Latin America. The state government wants to sell 15 per cent of Sabesp to a strategic investor and place 5 per cent of the company in the domestic and international equity markets.

The job went to Santander of Spain and Bozano Simonsen, Brazil's largest investment bank, which will charge a fee of only 0.0589 per cent to find a strategic investor for Sabesp. The fee for the smaller stock offering will range from 0.75 to 1.00 per cent.

"Low fees are justified when the business opens doors to other interesting opportunities," says Miguel de Bragança, president of Santander's Brazilian operations. "The experience we gain by handling the sale, will place us in a strong position to handle other projects in this field."

Despite stiff competition, Mr Bragança says Santander's investment banking operations remain profitable. The Spanish bank acquired two commercial banks, Geral do Comércio and Noroeste, to become the second biggest foreign bank in Brazil after HSBC.

"The advantage of having a strong capital base, with assets valued at \$10bn, is that it allows us to serve our clients in all their needs," Mr Bragança says.

Santander is currently advising Brazilian pension funds on their holdings in privatised steel companies. It advised VBC in its acquisition of electricity distribution companies and it is helping Acesita, the specialised steel maker, to find a strategic partner. As the largest financial group in Latin America, with \$40bn in assets spread from Patagonia to the Rio Grande, Mr Bragança also sees great potential for the bank in cross-border mergers and acquisitions.

At Bozano Simonsen's headquarters in Rio de Janeiro, Paulo Ferraz, president, insists the low commission fees for arranging the sales of Telebrás and Sabesp are not setting a new benchmark for the industry.

"Opening doors is easy. Doing profitable business over the long run is the real challenge," Mr Ferraz says. "In time, fees will return to normal."

In 1996, Bozano Simonsen were advisers in seven privatisations and last year, the bank advised the consortium led by Votorantim in the privatisation of CVRD. But fee income in 1997 fell to \$17m from \$23m in 1996.

"Fees for advising the government in privatisations are public and have forced down margins for advising buyers," Mr Ferraz says. "We are not making as much from fees as we were in the past, so we have diversified."



STET

Dresdner Kleinwort Benson advised

STET International

who with Viuhna, Globopar and Emdeco, acquired the concession for

Brazil B mobile telephone services in the state of Minas Gerais for R\$520,000,000

April 1998

COPEL

31,844,443 American Depositary Shares representing

31,844,443,000 Shares of Classe B Preferred Stock of Companhia Paranaense de Energia - Copel

US\$575,000,000

Joint global coordinator and bookrunner

July 1997

CEEE

Dresdner Kleinwort Benson advised

The Government of the State of Rio Grande do Sul

on the valuation, modelling and sale of the controlling shareholding in the D2 & D3 electricity distribution companies for R\$3,144,900,000

October 1997

gasNatural

IBERDROLA ENERGIA

Dresdner Kleinwort Benson advised

Gas Natural Latinamericana S.A., Iberdrola Energia S.A. and Flupepetro S.A., who, in consortium with Enron International, acquired 56.4% of the total capital of Companhia Estadual de Gás do Rio de Janeiro - CEG and 75% of the capital of Riopele S.A. for R\$22,181,736

July 1997

ELETROSUL

FURNAS

Dresdner Kleinwort Benson are advising the

Federal Government of Brazil

through the BNDES on the restructuring, valuation and sale of Eletrosul and Furnas

Bradesco Seguros

Dresdner Kleinwort Benson advised

Bradesco Seguros S.A.

on their acquisition of 71.5% of the total share capital of

UNIAO DE SEGUROS

Companhia União de Seguros Gerais S.A. for R\$50,100,000

November 1997

COELBA

Dresdner Kleinwort Benson led the consortium that advised the

GOVERNAMENTO DO ESTADO DA BAHIA

Government of the State of Bahia

on the valuation, modelling and sale of the controlling shareholding in COELBA for R\$1,730,888,000

July 1997

CBPO

Dresdner Kleinwort Benson advised a consortium led by CBPO on their successful bid for the Curitiba Apucarana tollroad in the state of Paraná

July 1997

ENEL

Dresdner Kleinwort Benson advised Enron on its winning bid for a 480 MW IPP in the state of Mato Grosso

July 1997

Dresdner Kleinwort Benson is the natural choice for excellence in financial services in Brazil. Our clients benefit from the global resources and focused expertise of the Dresdner Bank Group combined with a strong local presence.

Contact Kleinwort Benson do Brasil S/C Ltda at Avenida Rio Branco 128/11 andar, 20040-001 Centro, Rio de Janeiro, Brasil. Tel: +5521(221 2101) or Kleinwort Benson Limited in the UK on Tel: +44 171 623 8700.

listed in the UK by Kleinwort Benson Limited, regulated by SFA. Member of the Dresdner Bank Group.



Dresdner Kleinwort Benson

4 BRAZILIAN PRIVATISATION

ELECTRICITY • by Jonathan Wheatley

Sales run out of juice

After huge premiums in early sell-offs, recent offerings have underperformed

The electricity industry is the heavyweight of the privatisation programme. By the time it is complete, assets valued at an estimated \$45bn will be under private control.

Prospects for growth have attracted big foreign utilities and should continue to do so. Last year saw a string of regional distributors bought for amounts far in excess of their minimum sale prices. But the sale has recently hit a number of hurdles. The performance of some privatised companies has been criticised and the most recent auction fell embarrassingly flat. The state and federal governments are keen to keep sale revenues coming in but, with elections looming in October and opposition leaders ready to pounce on any means of attacking government policy, they must hope the dozen or so auctions expected this year proceed more smoothly.

"Use of electricity is still very low when you compare per customer consumption in Brazil with developed countries," says Michel Gaillard, president of Light, the Rio de Janeiro distributor privatised in May 1996 which last month bought Eletropaulo Metropolitana, a distributor serving the city of São Paulo. "Even as consumption levels approach the US and Europe there will be room for more expansion of the market."

In the north east, the least developed part of Brazil, a minor industrial revolution has produced the fastest rate of economic expansion in the country and consumption of electricity is growing by 20 per cent a year. Even in the industrialised south east, annual consumption in some regions is growing by 6 per cent.

As Light's experience in Rio has shown, incoming



Switched on: itself a privatised firm, Light returned to the market to buy Eletropaulo Metropolitana

operators may have to invest more than expected to bring old and poorly maintained infrastructure up to scratch. Light and Cerj, the two privatised distributors in Rio state, have both been criticised by regulators for failing to act quickly enough.

But they are not alone. VBC, a local consortium formed by Votorantim, a cement and paper group, Bradesco, Brazil's biggest private bank and construction group Camargo Correa, has invested in a hydroelectric power station and two distributors: Rio Grande Energia, formerly part of CEEE in the southern state of Rio Grande do Sul, and CPFL of São Paulo.

It will spend \$350m on basic improvements at Rio Grande this year in addition to previously planned investments of \$300m a year. At CPFL, following unusually heavy storms during the summer, it has added \$300m to the \$150m it planned to spend this year on modernisation.

Investors, however, seem happy to take such risks. One explanation lies in the very high margins available. In much of the north east, distributors can buy electricity at \$300 a megawatt hour and sell it for as much as \$510. Even in the south, gross margins are often as high as 80 per cent.

This appeal was demonstrated by the prices paid for the nine distributors sold in

the second half of 1997. Premiums exceeded even analysts' most optimistic predictions, reaching as much as \$3.6 per cent to the minimum price. The average premium for the nine was 71.4 per cent.

But this success was not repeated with the sale last month of three companies spun off from Eletropaulo, the São Paulo distributor and generator. The state attempted to sell EPTE, a generator, and two distributors: Bandeirantes, covering the interior of the state, and Metropolitana.

Analysts had expected buyers to pay as much as 30 per cent more than the asking prices. Instead, Metropolitana was sold to Light for the minimum of \$22.03bn. No bids were entered for EPTE or Bandeirantes.

VBC had been expected to compete for the distributors. José Said de Brito, a director at Votorantim Energia, says the group decided not to bid partly due to the extra demands placed on CPFL by the summer's heavy weather.

Furthermore, VBC, because its members are all highly visible Brazilian companies, could not take the political risk of anything going wrong. "If we'd been unable to solve any problems quickly, it could have hurt the image of the companies in the group and caused complications for our other activities."

But, he says, the high asking prices and need for investment were the biggest factor. "We would have had to spend \$350m in the first year on modernisation and even then the returns would not have been visible for some time."

Mr De Brito also sees wider problems in the handling of electricity privatisation. He says the government is trying to achieve four mutually incompatible objectives: to raise the highest price at each sale; to stimulate expansion of the industry; to improve the quality of services; and to secure lower tariffs.

"There is an obvious conflict here," he argues. "Buyers are paying high prices for the utilities, they're having to invest heavily to improve services and then they're being asked to cut tariffs."

At present, new operators have five years before tariff reductions must be introduced. Anel, the industry regulator created last year, plans to reduce this to four years and possibly three.

Despite reservations about such plans, the industry has welcomed Anel's independent role. Free of the political considerations restricting its public-sector predecessor, Anel is able to take a tougher stance. Its highest challenge will be to ensure reliability of supply in a fast-growing and unpredictable economy.

PROFILE Light

When Brazil began selling its electricity industry in 1995, critics said it was too early to privatise. The proper regulatory structure was not in place, they argued, and public monopolies were merely becoming private monopolies: new owners would sack workers, convert the savings into profits and leave customers to protest in vain as services deteriorated.

In this summer's repeated power cuts in the city of Rio de Janeiro, it seemed the critics had been proved correct. Light, the company subsequently described by a government minister as "an embarrassment to the privatisation programme", found its crumbling infrastructure no match for the violent storms and sweltering heat provoked by El Niño.

As the lights went out and air conditioning units spluttered to a halt, angry customers, unable to contact the company on its emergency service number, besieged its offices. They were not mollified by news that Light's profits had almost doubled in 1997 and dividend payments, as a percentage of earnings, had risen tenfold, while 4,500 jobs - more than a third of the work force - had been cut since privatisation in May 1996.

"The power cuts were terrible," says Ana Siqueira of Banco Itaú in Rio. "Light's assets were in much worse condition than the buyers had thought and the problems couldn't be fixed overnight."

Despite a barrage of criticism, Light was undaunted. As if to confound the critics, its controlling group - composed of AES and Houston Industries Energy of the US, Electricité de France and CSN, the Brazilian steel maker - last month bought Eletropaulo Metropolitana, a distributor serving the city of São Paulo. It paid \$22.03bn for a controlling stake, taking its investment, with the \$22.25bn paid for Light, to more than \$44bn.

Shadow cast by less than bright start

The purchase puts it in a commanding position. Together, Light and Metropolitana make up the biggest publicly traded electricity distributor in the Americas.

The companies' operating areas in São Paulo and Rio offer, respectively, the biggest and second biggest concentrations of customers per square kilometre in Brazil. Residential customers, which offer the highest margins, account for a third of the electricity sold. While both markets are among the most mature in the country, they offer attractive growth: sales in Rio grew by 5.5 per cent in 1997, compared with Light's prediction of 4 per cent. Sales in Metropolitana's area are expected to grow by 2 per cent in 1998.

Both companies were apparently good buys. They cost less per customer and per megawatt hour of electricity sold than the average of the 13 sales of Brazilian electricity distributors completed so far.

Light, especially, seemed to have potential for substantial revenue growth, particularly from reductions in the huge amount of electricity lost, amounting to 16.7 per cent of electricity distributed in 1996.

Just more than a third was caused by technical deficiencies in the distribution system. The remainder was caused by "commercial" factors: theft through illegal connections, a common problem in Rio's immense shanty towns; and fraud committed by customers tampering with meters, a crime perpetrated

mostly in middle class residential areas. But reducing Light's losses proved harder than expected. Years of under investment and poor maintenance in the public sector had left the network in a precarious condition. And its new management was slow to grasp the extent of the problem.

"They have reacted well since the summer but they were wrong not to foresee what could happen," says Ms Siqueira. "Fixing a problem is never the same as preventing it."

Lack of regulation must take part of the blame. Anel, the electricity industry watchdog, was established only last October. One of its first acts was to compile a report on Light's operations.

It found serious shortcomings. The condition of Light's infrastructure, it said, was "incompatible with the provision of adequate service". Spare parts were lacking for equipment in disrepair, substations were overloaded, transformer failures were high and increasing.

Many of these difficulties Anel ascribed to Light's deterioration in the public sector. But it found continuing management problems. The quality of information and commercial systems was deficient. Customers had been disconnected for non payment of bills they had not received.

Anel ordered Light to "proceed with more rigor" in meeting performance targets and advised it to review its policy on

dividends into line with commitments on quality of service and improve communications with its customers by introducing a toll-free telephone service.

Light has responded. The toll-free line is in operation, and investments for 1998, previously set at \$347m, have been increased by an additional \$58m to be spent on improving its distribution network.

"Our priority now is to supply our customers and improve the quality of our product," says Michel Gaillard, president. "The problems we have had are nothing to do with the privatisation process, although there are things that could be said about the previous lack of regulation. What is right about privatisation is that it puts the customer in charge, and our aim now is to increase customer satisfaction."

Some in the industry say the group could face similar problems in São Paulo. Metropolitana's network is also in need of investment, though its deficiencies are less glaring than Light's. Anel - which warned Light after the purchase that last summer's disruption must not be repeated in São Paulo - has set tighter controls on performance than initially applied in Rio. Among them is a requirement to invest \$500m during the next three years.

No-one yet knows how much will have to be spent over what period. One difficulty is that much of Metropolitana's infrastructure is under ground, making detection and correction of problems more complicated. Mr Gaillard says the due diligence carried out before the purchase was not enough to assess the extent of Metropolitana's investment needs. The group is now carrying out a detailed examination, expected to take three months. Only then will it know exactly what it has bought.

Jonathan Wheatley

There are many reasons for relying on Bozano, Simonsen. Here are some of them:

AB
US\$ 335,000,000
Senior Secured Credit Facilities
Lead Manager
May, 1997

ETI
US\$ 300,000,000
Medium Term Export Prepayment Facility
Co-Agent
May, 1997

COPESUL
US\$ 75,000,000
Revolving Secured Pre-Export Facility
Manager
December, 1996

EST
US\$ 300,000,000
Export Receivables Securitization
Lead Manager
April, 1997

Trikem
US\$ 250,000,000
L/C bond
Co-Manager
July, 1997

SHARP
US\$ 120,000,000
Eurobond
Lead Manager
October, 1997

CEB
US\$ 479,000,000
Global offering of convertible bonds
Lead Manager
August, 1997

ee
US\$ 361,234,000
Placement of straight securities
Lead Manager
September, 1997

6
US\$ 343,803,000
Placement of ordinary shares on the secondary market
Lead Manager
July, 1997

BANERJ
US\$ 289,000,000
Banco Bradesco, Simonsen coordinated the first privatization of a publicly owned bank in Brazil for the sum of
July, 1997

Meridional
US\$ 239,150,000
The Banco Simonsen coordinated the first privatization of a publicly owned bank in Brazil
December, 1997

EUROMONEY
#1
Euromoney has elected Banco Bradesco, Simonsen the best investment bank in Brazil.

BOZANO SIMONSEN
www.bozanosimonsen.com.br

This advertisement is issued by Banco Bozano, Simonsen or one of its affiliates. Where this document is distributed in or from the UK, it has been approved by Bozano, Simonsen (UK) Limited, regulated by the SFA.

This announcement appears as a matter of record only.



Eletrobrás

have sold 82.69% of the voting shares, representing 51.05% of total shares in



to

Distriluz Energia Elétrica Ltda.

a company formed by Endesa of Spain, Enerais, Chibretta and Cerj.



The State of Ceará was advised by IFC and Banco Bradesco in relation to the execution of this transaction. IFC also acted as Global Coordinator.

APRIL 1998

This announcement appears as a matter of record only.



and

Consórcio Fortaleza Energia

formed and led by Teacsa Brasil S.A., Companhia Siderúrgica Nacional (CSN) and Viciunha Group

have executed project documents for the development of a 240 MW gas fired power plant to be constructed at the Port of Pecém, Ceará, Brazil.



COELCE and the State of Ceará were advised by IFC in relation to the execution of this transaction.

APRIL 1998

TRANSPORT • by Leslie Crawford

Little moving forward

The ports are in a storm, roads are going nowhere but rail is on track

A labour tribunal in the state of Bahia, in the north-east of Brazil, handed a major victory this month to exporters and port operators in their battle against the country's powerful dockworkers' unions.

The court ruled against the compulsory hiring practices imposed by nine trade unions, which determined the number of cargo handlers working on board ships. Henceforth, port operators will be entitled to hire their own teams of freelance stevedores, in a move which is expected to reduce vastly inflated labour costs at Brazil's ports.

Overmanning at Brazilian ports has been a significant contributor to the infamous "custo Brasil", or Brazil cost, a combination of high interest rates, taxes and operational overheads that erodes the competitiveness of Brazilian exports. It also explains why the privatisation of a number of ports has not brought about improvements in efficiency or lowered freight costs.

At Santos, Latin America's largest port which handles a third of Brazil's foreign trade, 13,000 dockworkers and 2,000 administrative personnel process 35m tonnes of cargo a year. By contrast, the port of Ghent in Belgium handles 25m tonnes of cargo with only 600 port workers.

Some dockworkers earn as much as R\$15,000 a month,

which is why loading a container at Santos can cost \$580, compared with \$150 in Buenos Aires or Montevideo. The dedicated container terminal at Santos handles 12 containers an hour, compared with 22 in Buenos Aires and 30 in Rotterdam.

"The court ruling in Bahia is unprecedented; it represents a major victory for the right of port operators to determine how many dockworkers they need to employ," says Wilson Mantelli, vice-president of the Brazilian Association of Port Terminals (ABTP), a private-sector group which has lobbied for reform.

"The portworkers' unions are the last bastion of the old, corporatist Brazil, and represent the biggest obstacle to the modernisation of port operations. Perhaps now the custo Brasil will begin to fall."

Port workers' unions, however, are unlikely to accept the court ruling in Bahia without a fight. Union leaders say they will take their case to an appeals court and are threatening strike action.

It has been difficult to break the trade union stranglehold on Brazilian ports. Last year, Cosipa, the privatised steel maker, tried to hire non-unionised dockers to offload iron ore at its terminal in Santos. Unionised dockworkers responded by occupying Cosipa's port facilities and paralysing cargo handling for two weeks. A compromise was reached whereby unionised stevedores handle one ship for every two ships handled by Cosipa employees. The contrast in productivity is

dramatic: Cosipa says its dockers offload 600 tonnes of iron ore a day, against an average of 90 tonnes when union labour is employed, while the cost of hiring unionised dockers is 135 per cent higher than Cosipa's own personnel.

Freight handling costs at Santos, Rio de Janeiro and other ports in the south-east have become prohibitive, forcing some manufacturers to reorganise production logistics to take advantage of more user-friendly ports in the far north and far south of the country.

Alcoa, the aluminium maker, has concentrated its entire export output in the north of Brazil. "We can embark 125 tonnes of aluminium bars an hour, 24 hours a day, at the ports of Itaguai and Alumar in the state of Maranhão," says Paulo-Gonzalez, foreign trade director at Alcoa. "In the south-east, we loaded 320 tonnes a day." Freight handling charges in Maranhão, at \$11 a tonne, are one-fifth of costs at Santos or Rio de Janeiro.

Exporters say they could earn an additional \$50n a year if port costs fell. Even within-Brazil, manufacturers say they are losing business to foreign competitors because of the country's exorbitant freight handling charges.

Brazilian steel tube manufacturers recently lost a major public tender to supply an oil pipeline project in the Amazon because of the \$55 per tonne freight charges from the port of São Sebastião in the state of São Paulo to Coari in the Amazon. The Mexican bidder which won

the contract will ship its steel tubes from Houston, in Texas, at a cost of \$30 per tonne.

"High freight costs are the greatest enemy of Brazilian manufacturers," says José Adolfo Siqueira of the Association of Brazilian Metal Industries.

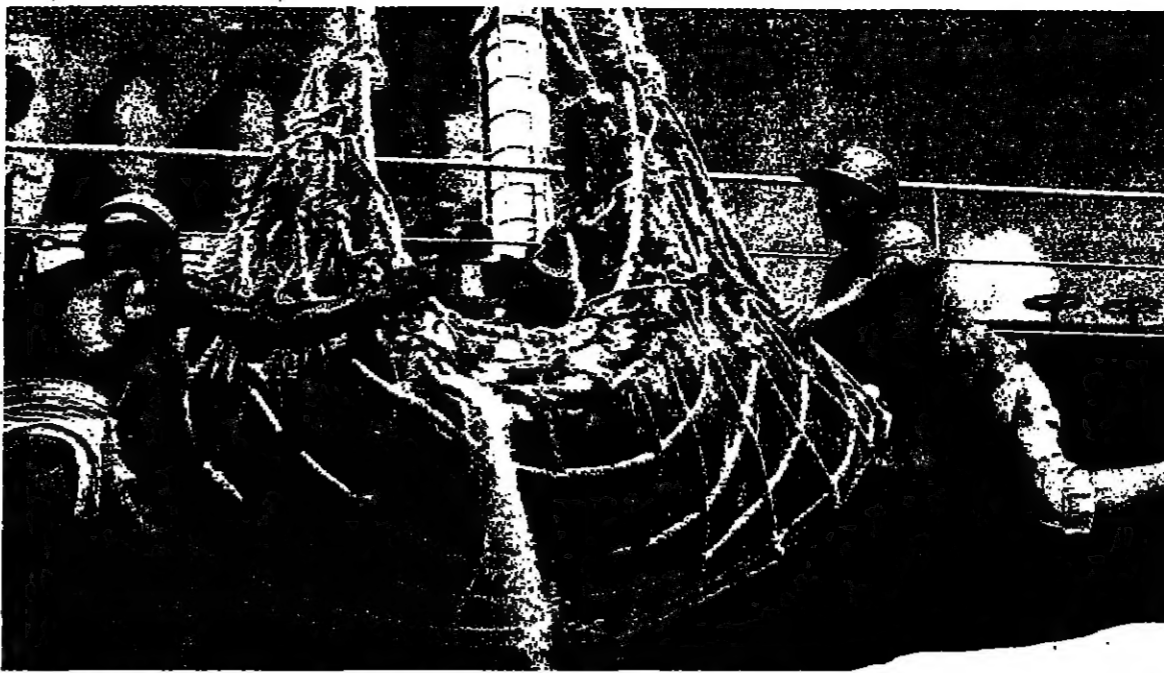
The privatisation of some 11,000km of state and federal highways has also been a disappointment, at least as far as the reduction of the custo Brasil is concerned. Although concession holders have begun to improve the country's dilapidated road infrastructure, trucking companies complain that high tolls are driving them out of business.

Five-axis trucks pay R\$71 in tolls on the Dutra, a heavily-used privatised highway between São Paulo and Rio de Janeiro. The tolls, truckers say, equal 70 per cent of their fuel costs for the 400-km journey.

"Concession holders should not be allowed to charge First World tolls on Third World highways," says Romen Luft, president of the National Truckers' Association. A study commissioned by Mr Luft's association shows Brazilian tolls average \$0.05/km/axle, similar to tolls charged in Italy, Portugal and the US.

"Privatising part of the highway network may have solved part of the government's budget problems but it has only exacerbated the custo Brasil," Mr Luft says.

Mr Luft says high tolls are also unfair because, in many cases, trucking companies have no alternative routes to reach their destinations. Where alternatives exist, toll



In the dock the high cost of unionised labour is accused of damaging Brazilian exporters

Glyn Davis

roads are empty of customers. Mr Luft cites the case of a new bridge built by an Italian consortium across the Uruguay River, linking São Paulo in Brazil to Santo Tomé in Argentina, which remains empty because of a \$50 toll. The new bridge saves almost two days of driving to Buenos Aires and the long queues at Uruguiana, the main border crossing further down the river. But Mr Luft says the convenience does not justify the additional expense.

The National Truckers Association is now concerned that the Italian consortium is putting pressure on the Brazilian government to charge a toll at Uruguiana. Mr Luft has protested and demanded to be included in negotiations. He has also won the consent of

toll-road operators and the transport ministry in Brasília for the creation of a tripartite commission to review toll charges. He hopes the commission will be formed before the end of the year.

"Truckers transport 56 per cent of Brazil's domestic freight and almost all exports to Argentina, Uruguay and Paraguay," he says. "Mercosur would not exist without us. We are too important to be left out of decisions which affect Brazil's export drive."

Privatisation has perhaps been most beneficial for rail transport. Brazil's 22,068km federal railway system was split into six regional networks and awarded to private operators in 1996 and 1997. The São Paulo state railway network, Fepasa, with

4,557km of track, has also been slated for privatisation. The new concession holders have spent the first year repairing tracks and rolling stock and improving customer satisfaction by reducing delays and clamping down on cargo theft.

At Noveste, formerly the eastern branch of the federal network, the new operators, Noel Group of the US, have increased the proportion of locomotives in use from 29 per cent to 70 per cent, cut the daily average of engine failures from 4.1 to 1.1 and of loaded wagons awaiting movement from 436 to 37.

There is a huge potential market to be won over by the newly-privatised rail operators. Despite Brazil's enormous size, only 21.4 per cent of freight is transported by rail. Bulk cargoes such as

soya are still carried by truck because Brazil's railway network, which dates from the 19th century, does not extend into the central states of Goiás and Mato Grosso - the country's new agricultural frontier. Trucks also carry the bulk of manufactured goods from the industrial heartland of the south-east to the north-east of Brazil, as the railway along that route has fallen into disrepair.

But new investments in rail transport are under way. Ferronorte, a private operator, plans to complete the first stretch of a railway linking São Paulo to Goiás by 1998. The Centro-Atlântico network is also planning to refurbish the north-south network to transport petrochemicals from Bahia to Minas Gerais.

PROFILE Companhia Siderúrgica Nacional

The ties that bind

If a director of a Brazilian state-owned company wishes to go on a foreign business trip, he faces an intimidating bureaucratic procedure. First, written permission must be given by the relevant ministry in Brasília. The information must then be published in the Diário Oficial, the register of government business.

Almost all business-related purchases, even new pens, chairs or office plants, face the same mountain of paperwork. State-owned companies have huge administrative departments whose sole job is to jump through these bureaucratic hoops.

It is no surprise then that privatised companies, freed from the labyrinthine restrictions of the public sector, have been able to take a scalpel to their fixed costs and produce startling turnarounds in financial performance.

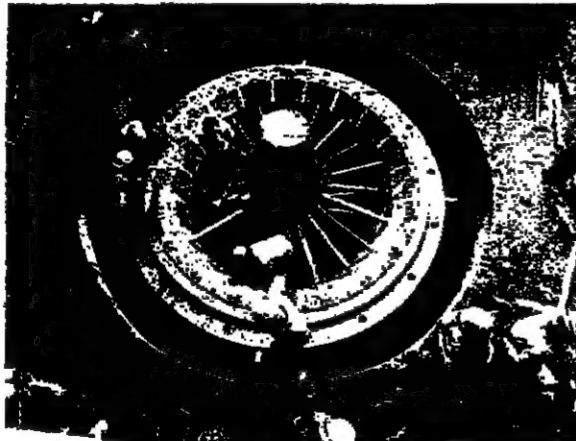
Perhaps the most striking example of this has been Companhia Siderúrgica Nacional (CSN), Latin America's largest integrated steel company. When CSN was privatised in 1993, it was a sprawling and loss-making albatross. Five years later the picture is very different. Through heavy cost-cutting and better financial management, CSN's fortunes have been transformed. The company made net profits in 1997 of R\$450m, 65 per cent up from the previous year.

The workforce has felt the brunt of this process - the headcount has fallen from 22,134 in 1989 to 9,069 last year. However, productivity has soared over the same period, with the annual output per worker rising from less than 200 tonnes to 542 tonnes last year.

"It is the classic case of a very bad company being put up for sale and really taking off," says Denis Jungerman, a director at JP Morgan in São Paulo.

The cash the business has started to generate has allowed CSN to broaden its horizons. Last May, the company led the consortium which bought a controlling stake in Companhia Vale do Rio Doce (CVRD), the world's largest iron ore miner and crown jewel of the privatisation process.

The auction was a coming of age for CSN. It also catapulted CSN's chairman, Benjamin Steinbruch, into a leading position in Brazilian industry. He now chairs the board of CVRD as well as CSN.



A steel CSN came of age by buying in to CVRD

John H. Johnson

However, while privatisation resulted in a substantial improvement in financial performance, the process left some unresolved questions. Now, seven years after the first privatisation in the sector, the debate about the future of the industry has finally begun - and CSN is centre stage.

According to Mr Steinbruch, the Brazilian steel sector could make a substantially larger contribution to Brazil's trade performance if the industry consolidated into two or three larger groups.

At present Brazil only exports around \$50m of steel despite low costs and abundant raw materials. Mr Steinbruch believes there is a gap in the world market for steel plates.

With greater economies of scale, the Brazilian steel sector could meet some of this untapped demand and double its exports over the next few years.

"The potential is there but there needs to be a number of mergers before that investment can take place," he says.

The obvious target in this process is Companhia Siderúrgica Tubarão (CST), a small steel company which has substantial growth potential. CSN is preparing a bid for a minority shareholding in Açosita, the steel company which has a 24 per cent stake in CST.

However, Mr Steinbruch's grand plan for the industry faces foreign opposition in the shape of Usiminas, the French steel group, which is also considering a bid for a substantial stake in Açosita and in CST.

number of carmakers and other local customers have already shown enthusiasm for the Usiminas proposal.

The battle for CST will, therefore, indicate the post-privatisation shape of the sector - whether it goes in the direction of two or three national champions or a more competitive internal market.

Wearing his CVRD hat, Mr Steinbruch is planning to give a further boost to the consolidation process by urging the board to sell its substantial holdings in the steel sector. Previ, the Banco do Brasil pension fund, is also analysing the sale of part of its steel portfolio.

A substantial divestment by CVRD and Previ would go a long way to clearing up one of the other unresolved by-products of the privatisation process - the elaborate and overlapping structure of shareholdings in the sector.

CSN and CVRD have stakes in each other, for instance, while CVRD also has a significant shareholding in Usiminas. Unravelling these relationships would benefit the industry.

Productivity has risen dramatically since privatisation, but it is still well behind international levels. A recent analysis of the sector by McKinsey, the management consultancy, found that if productivity levels in the US industry were equivalent to 100, Brazil scored 77 while Japan registered 110.

Low education levels, expensive transport and high tariffs explain some of the relative inefficiency but McKinsey concludes that the industry's cross shareholdings were also holding back productivity increases.

A less elaborate shareholder structure would help complete the job that privatisation of the companies has started.

Geoff Dyer

In Brazil

Morgan means more solutions for clients

In privatizations

BCP S.A. and BSE S.A.
the companies formed by BCS/Brasão Corporation, Sefra Group, S.A., O Estado de S. Paulo, Rede Brasil Sat, and Splice do Brasil

have acquired the

B-Band Cellular License for the Metropolitan Region of São Paulo and six northeastern states in Brazil

Joint financial adviser

JPMorgan

August 1997

Enron International
in a consortium formed with Gas Natural, Iberdrola Energía and Fluor Daniel Energy acquired 56.4% of the total capital of

CEC
Companhia Estadual de Gás do Rio de Janeiro

and 75.0% of the total capital of

RioGás S.A.

Financial adviser

JPMorgan

July 1997

Southern Energy, Inc.
a wholly owned subsidiary of Southern Company

in conjunction with AES Corporation and Opportunity Capital Partners Ltd., has acquired approximately 33% of the voting shares of

CEMIG
Companhia Energética de Minas Gerais

Financial adviser

JPMorgan

June 1997

In the international capital markets

BCP Telecomunicações

Criando Ligações

US\$1,750,000,000
2-year Syndicated Floating Rate Loan

(to fund the B-Band Cellular License for the Metropolitan Region of São Paulo)

Joint lead arranger

JPMorgan

April 1998

Federative Republic of Brazil

US\$500,000,000
100% Global Bonds due 2027

Joint bookrunner

JPMorgan

Re-opening March 1998

VARIG Brasil

RG Receivables Company, Ltd.
(organized under the laws of the Cayman Islands)

US\$100,000,000
9.6% Credit Card Backed Notes due 2005

Unconditionally guaranteed by

"VARIG", S.A.
(Viação Aérea Rio-Grandense)

Local manager

JPMorgan

February 1998

Inside and outside of this fast-growing market, governments, institutions and corporations turn to J.P. Morgan for help with their most critical transactions because they know we offer more.

For information about how we can put our market leadership to work for you, please call Alfredo Gutierrez, Managing Director, at (55-11) 281 3901 or your local Morgan representative.

More access to capital. More expertise in acquisitions and joint ventures. More knowledge of Brazil, based on our longstanding presence here. And as always, more of a commitment to putting our clients' interest first.

JPMorgan

strategic advice • mergers & acquisitions • debt & equity capital raising • swaps & derivatives • credit arrangement & loan syndication • sales & trading • asset management

These advertisements are neither an offer nor a solicitation of an offer to buy any of these securities and should be read only as a summary of information. J.P. Morgan Securities Inc. or J.P. Morgan Securities Ltd. is not a broker, dealer or financial institution in the United States. J.P. Morgan & Co. Incorporated is a member of the London Stock Exchange. J.P. Morgan & Co. Incorporated and its subsidiaries are not licensed to sell securities in the United States.

6 BRAZILIAN PRIVATISATION

TELECOMS • by Jonathan Wheatley

Sell-off to answer calls for change

Technology and private ownership could rescue a decrepit state system

The futuristic world of modern telecoms, with its bewitching gadgetry and "intelligent" services, is starting to arrive in Brazil. To the millions of frustrated subscribers, and would-be subscribers, to the country's crumbling public network - soon to be sold for an estimated \$20bn - it must seem like a sort of utopia.

Brazilians, after all, are used to waiting two years or more for a line to be installed, or to paying up to \$5,000 for quicker service on the parallel market.

The government hopes selling the network will allow the number of fixed lines to increase from about 18m today to 50m by 2005. It says competition should cut the cost of local calls by 5 per cent, of long distance calls by 25 per cent and of international calls - currently much more expensive than international averages - by 50 per cent.

Cellular services are already providing a cheap, and available, alternative. Meredith Parsly of Pyramid Research, a telecoms consultancy, reckons that in two or three years' time, "everyone in Brazil who wants a cellular telephone will have one".

The public network, the Telebras System, was once a model of state enterprise but, since the late 1970s, has succumbed to typical public-sector malaises: under investment, lacklustre management, the absence of a "service culture". If it makes the near-miraculous recovery now being promised, the credit will go to privatisation.

The driving force behind the sale was Sérgio Motta, the former communications minister who died of a lung complaint in April as his

plans were nearing completion. He helped devise - and push through an unco-operative Congress - a constitutional amendment ending the state's monopoly on telecom services and legislation governing the sale.

Days before his death, he signed the last of nine licences sold to private consortia to operate so-called B-band cellular services, to compete with existing A-band services offered by the Telebras System.

The sale raised about \$3bn, compared with a target of \$5bn, and allowed a host of foreign operators their first entry to the Brazilian market. But it was dogged by legal delays with more than a year passing between bids being made and the last contracts being signed.

Selling the Telebras System will be more complicated. In addition to Embratel, the long-distance and international operator, it consists of more than 50 companies recently split into fixed and cellular operators, with quality of infrastructure and services ranging from good to abysmal. These are being rebundled into 12 units: three regional fixed operators and eight cellular companies, plus Embratel.

As soon as the Telebras System has been sold, the government plans to offer four licences for competing fixed service operators. These will be required to serve all state capitals by the end of 2000 and all cities of more than 500,000 inhabitants a year later. Full competition will be permitted only in 2005.

The schedule for the sale seems impossibly tight. The ministry plans to issue tender documents on May 29, accept closed-envelope bids on July 15 and announce winners within the following fortnight.

But Mr Motta's successor, Luiz Carlos Mendonça Barão, formerly head of the National Development Bank and closely involved with

privatisation, says it is "very important" that the targets be met.

One factor adding to the urgency is the proximity of general elections in October, which will make it difficult after July for the government to take the political risk of the sale being anything but a resounding success.

If the schedule is met, it will be a rare success. Restructuring the network has been delayed by legal challenges. This month, the government made two big decisions governing the composition of bidding consortiums which lifted restrictions that applied to bidders for B-band licences.

There will be no limit on foreign participation - foreigners were restricted to 49 per cent of each B-band consortium - nor is there a requirement for consortia to include a telecoms operating company, although this requirement will apply to the competing fixed service operators.

Potential bidders and equipment suppliers are keen to get started. Luiz Claudio Guimarães, a director at Northern Telecom, the Canadian equipment maker, in São Paulo, says Brazil's is the most significant market in the world and the only one to meet four measures of attractiveness: population of more than 100m, gross domestic product of more than \$500bn, GDP per head of more than \$3,000 and telephone penetration of less than 15 lines per hundred inhabitants.

But, he says, the market suffers from "the Belinda syndrome": a cross between Belgium and India, composed of a small group of highly sophisticated consumers and a mass of underprivileged poor.

In most new markets, cellular companies have gone after the richest consumers first. But because of the distortions of Brazil's public sector, cellular telephony is



Engaging idea: privatisation could bring phones to all

seen in some areas as an affordable alternative to fixed services.

BCP, a consortium led by BellSouth and Banco Safra of Brazil, recently began offering B-band services in the city of São Paulo. It received almost 1.8m applications, of which 110,000 have been met. Roberto Peón, president, says the applicants represented a cross-section of São Paulo society.

"Income among the C, D and E social classes has grown enormously under the government's economic reforms," he says. "That means we have to meet existing suppressed demand and the new demand that will come with growing incomes and greater distribution of wealth."

For the present, BCP is charging a connection fee of R\$230. Mr Peón prefers not to comment on when competition might lead to falling prices.

The neighbouring state of Minas Gerais offers a vision

of BCP's future. There, Telecom, perhaps the best run of the state companies, has cleared waiting lists for cellular telephones (though not for fixed services). The incoming B-band operator, led by Telecom Itália, is fighting for market share by offering free connection.

Meredith Parsly at Pyramid says the same will apply throughout Brazil by the end of 2001, when cellular penetration will have risen to 8.2 lines per 100 inhabitants from just less than 3 per 100 today. This compares with fixed lines currently in service of about 10.7 per 100.

At about the same time, Brazilians can expect to be offered PCS (personal communications services), the next generation of telephony expected to challenge the duopoly of fixed and cellular services. But that, in a market where operators expect every plumber and knife-sharpener soon to be armed with a cellular phone, Brazilians will probably take in their stride.

OIL & GAS • by Jonathan Wheatley

Everyone a winner as monopoly ends

Petrobras will not be privatised but the company has lost its dominant position

David Zylberstajn, head of Brazil's newly created National Petroleum Agency (ANP), takes great care when the subject turns to the privatisation of Petrobras, the state oil company which for 40 years had a monopoly of the industry. "I can't say if I'm for it or against it. The ANP is neutral. Any decision would be taken by a majority in government and in Congress."

His caution is understandable. Petrobras is an emotional subject in Brazil. "The petroleum is ours," says the old Petrobras slogan, and many Brazilians agree.

Whether or not the majority would like to see the company in private hands is a moot point. But political opposition is entrenched. To secure the constitutional amendment that opened parts of the industry to the private sector in 1995, the government inserted a clause promising that Petrobras would never be sold. A subsequent attempt to change the law was defeated.

Privatised or not, Petrobras' domination of the industry is over. Its monopoly was broken last year by a law allowing private sector investment in all parts of the industry, from exploration to refining and distribution. It also allowed Petrobras to undertake new projects with private sector partners.

Some 70 foreign companies have since approached it. Petrobras says 37 projects, mostly for exploration and production, are ready to be signed once the ANP gives its approval.

The ANP may not agree to them all. It has placed licences for some 300 onshore and offshore sites under review. Those at which Petrobras is already producing, or for which it can prove it has the finance

its own or third party - to enter exploration or production, it will keep. Petrobras says this covers about 140 areas.

Conversely, the ANP is unlikely to grant it licences for sites in which joint venture partners provide majority finance. "Petrobras has to show it has the capacity to develop fields on its own," says Mr Zylberstajn.

Benny Stéfano, an oil analyst at Deutsche Morgan Grenfell in São Paulo, says the ANP's aim is to prevent Petrobras from continuing in its old role as government agent for the industry. It will not, for example, be allowed to offer a foreign partner a majority share in a project while itself remaining as the licensee.

"Everything the ANP is doing is aimed at reducing the power of Petrobras," he says. "It's all heading towards privatisation in the medium or long-term."

"Petrobras used to be a monopoly, an agency of the government," says Mr Zylberstajn. "Now it becomes a concessionaire. By the middle of next year we will have completed the first contracts for foreign companies to operate in Brazilian fields."

By that time, too, the government should have sold a minority stake in Petrobras comprising 31.7 per cent of voting stock - equal to 18.5 per cent of total capital - leaving it with the minimum stake necessary to retain control. The stake to be sold is valued at about \$5bn but is expected to command a considerable premium.

Before the sale, the government intends to make changes to Petrobras' board of directors. Of 10 members, eight represent the company and two the government.

The government plans to reverse that proportion. Press reports say Petrobras' president may also be replaced, although there has been no official comment. Because of the political sensitivity of such changes - Petrobras has powerful connections among the govern-

ment's supporters in Congress - nothing is expected to happen before October's general elections.

Other changes in the industry are moving swiftly ahead. Privatisation of natural gas distributors began last year with the sale of CEG in Rio de Janeiro.

In July, São Paulo state plans to sell control of Comgas, the biggest distributor in the country. The sale is expected to raise at least \$2bn. Big international groups such as Shell, British Gas, Amoco and Enron, some with minority stakes in some of Brazil's 16 natural gas distributors, are expected to compete with local electricity distributors for the company.

Comgas recently reached agreements to supply two new gas-fired power stations in São Paulo state. More power stations are likely to be built as supplies increase.

A pipeline carrying natural gas from Bolivia is due to begin operating next year under a venture between Petrobras and private sector partners. Last month, the government authorised private operation of gas pipelines. A project to bring gas from Argentina has already been approved.

Comgas' residential sales should increase, although domestic use of natural gas is limited. Most households use bottled petroleum gas and mains supplies are not common. Comgas currently supplies 280,000 households out of 5.5m in its concession area, but its existing infrastructure would allow it to double sales. Gross margins should make it worthwhile. Comgas buys gas for R\$0.09 per cubic metre and sells it to residential customers for R\$1.10.

Derogation is also reaching other sectors, including refining and distribution of petroleum products. But Mr Zylberstajn says the end of the state monopoly which has given Brazil a "dynamic, competitive petroleum industry" is of greater significance than privatisation.

IF YOU'D LIKE TO BE THE PARTNER OF A RISING COUNTRY

PRESS HERE.

Currently in Brazil about 140 million people consume electric energy derived from forty million distribution sites spread through the whole country. Eletrobrás, a private and public joint stock company tied to the Ministry of Mines and Energy, produces 55% of that energy, with no intention of calling it quits. Featuring a yearly energy consumption growth of more than 6% (twice the GNP), Brazil represents an electric

energy market under full expansion. Sixty thousand megawatts have already been installed, with the need for an additional 3,500 MW per year to meet that demand. Nowadays, 60% of the distribution market of that electric energy are under the responsibility of private enterprises.

As a key agent in the development of Brazil's electric energy sector, Eletrobrás also acts as national coordinator for planning, operations,

environmental management, business administration, research and development, maintenance and international relations.

Currently, the Company is placing special focus on international relations precisely because it believes in this continental-sized market under steady global expansion. Just ask those countries where Eletrobrás holds agreements or the power companies with which it does business: find out

how you, too, can become part of that group and gain access to the opportunities that Brazil offers.

Often a partnership begins with a simple handshake, moving on to a business lunch or meeting, finally reaching the stage in which a contract is signed. At Eletrobrás, partnerships begin with a click.

And they energize many new business opportunities. Get in touch with Eletrobrás.

ELETROBRÁS AND YOU: TOGETHER ENERGIZING A GREAT MARKET. Eletrobrás



Ministry of Mines and Energy



ITS TIME FOR IDEAS